NJ TRANSIT ANNUAL REPORT 2009

IN MOTION

NJ TRANSIT
The Way To Go.

CONTENTS

NJ TRANSIT served record numbers of passengers in FY2009, helping customers avoid volatile gas prices by holding fares steady while continuing to modernize and expand our fleet and facilities to maintain safe, reliable and convenient service.

While we have a great transit system, we can make it even better — and we're doing that. Investing in a robust and cost-effective transportation system is critical to our state and regional economies, providing access to jobs, medical and educational opportunities, and world class sports and entertainment venues. That's why I made sure that public transportation played a vital role in my state economic recovery program, creating and sustaining jobs for thousands of hard working men and women now, and delivering increased mobility for decades to come.

Nothing could better demonstrate my long-term commitment to public transportation than the milestones we achieved this past year on the Mass Transit Tunnel project. A combination of environmental approvals and state, federal and Port Authority funds allowed us to break ground on this historic project that is creating thousands of jobs, supporting economic expansion and transforming regional travel for generations. The project will ultimately take 22,000 cars off the road, eliminating 66,000 tons of greenhouse gases.

Beginning in 2008, we crafted a statewide stimulus program which accelerated 10 projects that created jobs and positioned us to be out of the gate and "shovel ready" to take advantage of the federal stimulus program. As a result, we now have the largest transit capital program in the nation. That means more jobs, a stronger transportation system, reduced traffic congestion, cleaner air and a better quality of life for the people of New Jersey.

As we move ahead, I look forward to sharing more success stories as we continue to improve and expand service and invest in a transit system that positions us for growth and prosperity. Enjoy the ride.

Sincerely,

Jon S. Corzine
Governor, State of New Jersey

MESSAGE FROM THE CHAIRMAN

NJ TRANSIT made great strides in FY2009 to accommodate future ridership growth, create corridors of new or enhanced service and establish new intermodal connections that extend the reach of our statewide network of bus, rail and light rail services.

We and our customers greatly benefited from Governor Jon Corzine's leadership when he created an economic assistance and recovery plan in the fall of 2008. His proactive response to what became the nation's worst economic downturn since the Great Depression propelled transit and other projects into high gear, helping to boost our state's economy. That initiative also positioned us perfectly for $424 million in federal stimulus funds that our congressional delegation fought for so successfully.

Our fiscal year ended on a historic high note with the June 8 groundbreaking for the Mass Transit Tunnel (MTT), the nation's largest transit project. In the short term, the MTT will create thousands of much-needed jobs for people who have been struggling to pay their bills. In the long-term, the MTT will revolutionize rail travel in the region by doubling trans-Hudson rail capacity, creating a one-seat ride to New York for customers on 11 of 12 commuter lines and expanding Penn Station New York to accommodate our growing commuter rail service. In essence, the project positions New Jersey for a new century of growth.

We also completed or advanced many other projects that benefit customers on all three modes of travel. Among them were expanding parking availability, providing more ADA accessibility, updating customer communications systems, opening the new Meadowlands Rail Station and advancing our fleet modernization program by replacing aging buses, railcars and locomotives with low-emission, fuel-efficient and comfortable units.

On behalf of the Board of Directors, I extend our deepest thanks to the Governor, the entire congressional delegation, our state legislature and many other supporters for recognizing the importance of public transportation and fighting for the resources that are helping us to fulfill our mission.

Sincerely,

Stephen Dilts
Transportation Commissioner
& NJ TRANSIT Board Chairman

LEFT TO RIGHT:

JAMES A. CAREY JR.
GOVERNOR'S REPRESENTATIVE

PATRICK W. O'CONNOR
TREASURER'S REPRESENTATIVE

MYRON P. SHEVELL
VICE CHAIRMAN

STEPHEN DILTS
CHAIRMAN

KENNETH E. PRINGLE

FLORA M. CASTILLO

SUSAN L. HAYES

MESSAGE FROM THE EXECUTIVE DIRECTOR

Despite a time of unprecedented economic volatility, we expanded and improved bus, light rail and commuter rail services and continued to build the system to meet the challenges of the next several years.

Governor Corzine's state economic recovery program — combined with federal stimulus funds — helped NJ TRANSIT develop the largest transit capital program in the country. These stimulus funds are being used to make smart capital investments that create jobs now, and deliver long-term transit benefits for years to come. They include a new intermodal station connecting bus, rail and light rail services in Pennsauken, new Access Link paratransit vehicles, and infrastructure improvements to increase capacity along the Hudson-Bergen Light Rail Line, River LINE and Morristown Line, as a few examples.

Our largest investment is the governor's top transportation priority, the Mass Transit Tunnel (MTT). The governor joined us in June 2009 when we broke ground for the MTT on the first of many construction contracts that will be awarded during the life of the project. The MTT will create thousands of jobs during construction, increase rail capacity in New Jersey and the surrounding region, and support long-term economic growth.

Several cost-containment strategies allowed us to hold fares steady in FY2009, a tremendous benefit for customers who are closely managing their finances in a tight economy. In fact, we've put more capacity where demand is and lowered our administrative costs to eight cents of each operating dollar, down from 12 cents in FY2002 — an all-time low for the agency.

Other accomplishments include the opening of our new Meadowlands Rail Station and a new entrance at Penn Station New York, and launching Go28 premium express bus service, linking Bloomfield and Newark to the University and Innovation zones and Newark Liberty International Airport. We also completed or advanced station improvements, expanded parking opportunities and continued to modernize our fleet with the arrival of more multilevel railcars and buses.

Thanks to the continued support of the Governor and our Board of Directors, as well as leaders in Trenton and Washington, we will continue to make investments that provide our customers and the communities we serve with a reliable, convenient and interconnected transportation system. I also want to commend the men and women at NJ TRANSIT for their continued dedication and enthusiasm, providing excellent service to more than 270 million customers during FY2009.

Sincerely,

Richard Sarles
Executive Director

Under the leadership of Governor Jon S. Corzine, NJ TRANSIT is delivering one of the most aggressive public transportation investment programs in the history of the state. The governor's economic recovery program includes smart transit investments in our equipment and infrastructure that are creating and sustaining transit jobs, ensuring system safety and reliability, improving the customer experience and increasing mobility for decades to come.

No investment better exemplifies this commitment to transportation than the Mass Transit Tunnel (MTT) — the largest transit project in the nation. In June 2009, we broke ground on the project, which will create tens of thousands of jobs during and after construction. The MTT will double commuter rail capacity between New Jersey and New York, expand Penn Station New York, create a new one-seat ride to New York from most of our diesel rail lines and expand regional mobility, while also helping to reduce air pollution and traffic congestion.

NJ TRANSIT's program of capital investments to maintain and expand service is now the biggest in America. In addition to Governor Corzine's early FY2009 program to accelerate projects to boost statewide economic recovery, the Obama Administration's American Recovery and Reinvestment Act (ARRA) is making possible more than a dozen major capital projects, including an intermodal transfer station in Pennsauken, rail and light rail signal system upgrades, accessibility improvements, new Access Link vehicles and installation of new bus shelters throughout the state.

We opened an important transit project this year — rail service to Giants Stadium in the Meadowlands — which is already contributing to record stadium attendance and relieving traffic congestion. Launched in partnership with the Port Authority of New York & New Jersey, the New Jersey Sports & Exposition Authority, the New Jersey Department of Transportation, Jets and Giants football teams and the MTA Metro-North and Long Island railroads, the rail service opened new regional markets, including bringing transit riders from Connecticut to New Jersey for the first time.

Building on the success of our Go Bus 25 premium bus service, we recently launched Go Bus 28, a new local express bus line that serves Bloomfield's Central Business District, Newark's Innovation Zone, University Heights, Science Park, Newark's Downtown Business District and Newark Liberty International Airport, with connections to the Ports of Newark and Elizabeth. Go Bus 28 features even more elements of bus rapid transit, including traffic-signal priority to reduce travel time and real-time bus information for customers at our bus/Newark Light Rail Bloomfield Avenue Station.

We also took delivery of our 300th multilevel railcar — which has won rave reviews from customers and employees who had input into the design and helped select amenities.

Meanwhile, we implemented internal cost-containment measures that helped us avert fare hikes in FY2009 and again in FY2010. We are proud of achieving a record level of fiscal efficiency with only eight cents of each operating dollar going to administrative costs in FY2009, down from 12 cents in FY2002.

Finally, despite the challenges of a struggling global economy, NJ TRANSIT still had a modest increase in ridership in FY2009, setting another record for the corporation. More than 270 million trips were recorded, an increase of 723,000 trips from the previous fiscal year.

A series of rapid developments allowed us to break ground for the MTT. We received federal approval on a Final Environmental Impact Statement and a federal commitment to provide a total of $3 billion for the MTT. The Federal Transit Administration also approved a $1.35 billion Early Systems Work Agreement to support the tunnel's initial phases of construction.

Federal stimulus ARRA funding enabled NJ TRANSIT to advance shovel-ready projects that will build system capacity, extend accessibility, ensure service reliability and create and preserve jobs.

1. **MASS TRANSIT TUNNEL** Advance final design, engineering and initial construction of this key project.

2. **INTERMODAL TRANSFER STATION** Design and construct a new station in Pennsauken, linking River LINE, Atlantic City Rail Line and regional bus service.

3. **PLAUDERVILLE STATION** Construct ADA improvements, including new high-level platforms, a heated waiting area, canopies, lighting and electronic signage.

4. **EDISON STATION** Add nearly 500 parking spaces and pedestrian improvements.

5. **NEWARK PENN STATION PLAZA** Improve pedestrian and vehicular traffic circulation along Raymond Plaza West, including new crosswalks, traffic-calming devices, pick-up and drop-off spaces and way-finding signs.

6. **RIVER LINE** Upgrade the light rail line's signal system to increase capacity and meet Federal Railroad Administration requirements by 2015.

7. **HUDSON-BERGEN LIGHT RAIL** Install a new interlocking near Danforth Avenue Station to allow more local light rail service.

8. **MORRISTOWN LINE** Upgrade the signal system between Summit and Denville to provide more operating flexibility and capacity.

9. **MINIBUSES AND SEDANS** Purchase more than 200 new vehicles to modernize and expand NJ TRANSIT's Access Link program and upgrade public and nonprofit fleets.

10. **BUS SHELTERS** Install 175 new bus shelters throughout the state.

11. **LOWER HACK DRAW BRIDGE** Complete the second phase of a project to rehabilitate this three-track rail bridge over the Hackensack River.

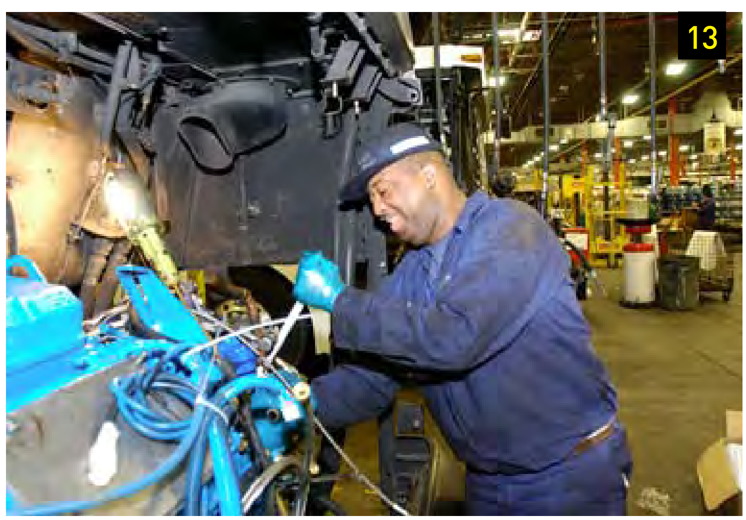
12. **ENHANCED TRACK WORK** Replace track or ties on the Montclair-Boonton, Main/Bergen, Atlantic City, North Jersey Coast and Morristown lines and install switches at Hoboken Terminal.

13. **BUS AND RAIL PREVENTIVE MAINTENANCE AND EQUIPMENT OVERHAUL** Rebuild or replace major bus and rail components and perform other work including HVAC and structural repairs.

9


10


12


13

We are nearing the end of production of our popular **Multilevel Vehicles** (MLVs). The last of 329 MLVs is scheduled to arrive in early-2010.

We ordered nine additional **ALP-46 electric locomotives** in FY2009, for a total of 36. Delivery of all 36 locomotives is scheduled for completion in mid-2011.

We ordered 26 new **dual-power locomotives**, which are powered by diesel fuel and overhead electrical wires. The new locomotives will offer more operating flexibility and a one-seat ride to New York for customers on diesel lines when the MTT is completed. The first prototype arrives for testing in 2011; all 26 are scheduled to be delivered through 2012.

We continue to modernize our bus fleet with the delivery of new **transit and suburban buses**. Delivery of all 1,145 buses is expected through 2013.

NJ TRANSIT implemented a **condition-based maintenance program** in FY2009 for its diesel locomotive fleet. The strategic program allows maintenance staff to perform specific inspection and monitoring tasks to identify potential component failures and take corrective action before they affect locomotive performance, improving fleet availability and reliability at a reduced cost.

We opened a new ADA-compliant entrance at **Penn Station New York**, providing customers with direct access to the 7th Avenue Concourse.

We are nearing completion of a modernization project at **Metropark Station**, including new high-level platforms with canopies, climate-controlled waiting shelters, an expanded waiting room and new customer information systems.

Work continued at **Hoboken Terminal**, where we are working in partnership with the Port Authority of New York & New Jersey to restore ferry slips, ferry boarding areas, ticket offices, a waiting area and gangways.

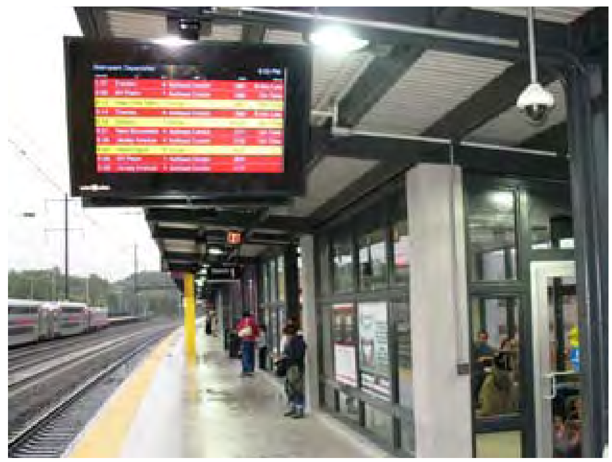
We advanced accessibility work at **Somerville Station** (Raritan Valley Line), **Ridgewood Station** (Main Line) and **South Amboy Station** (North Jersey Coast Line), including new high-level platforms, elevators and sheltered waiting areas.

We completed historic restoration work on the exterior of **Rutherford Station** and have moved indoors to complete interior restoration work.

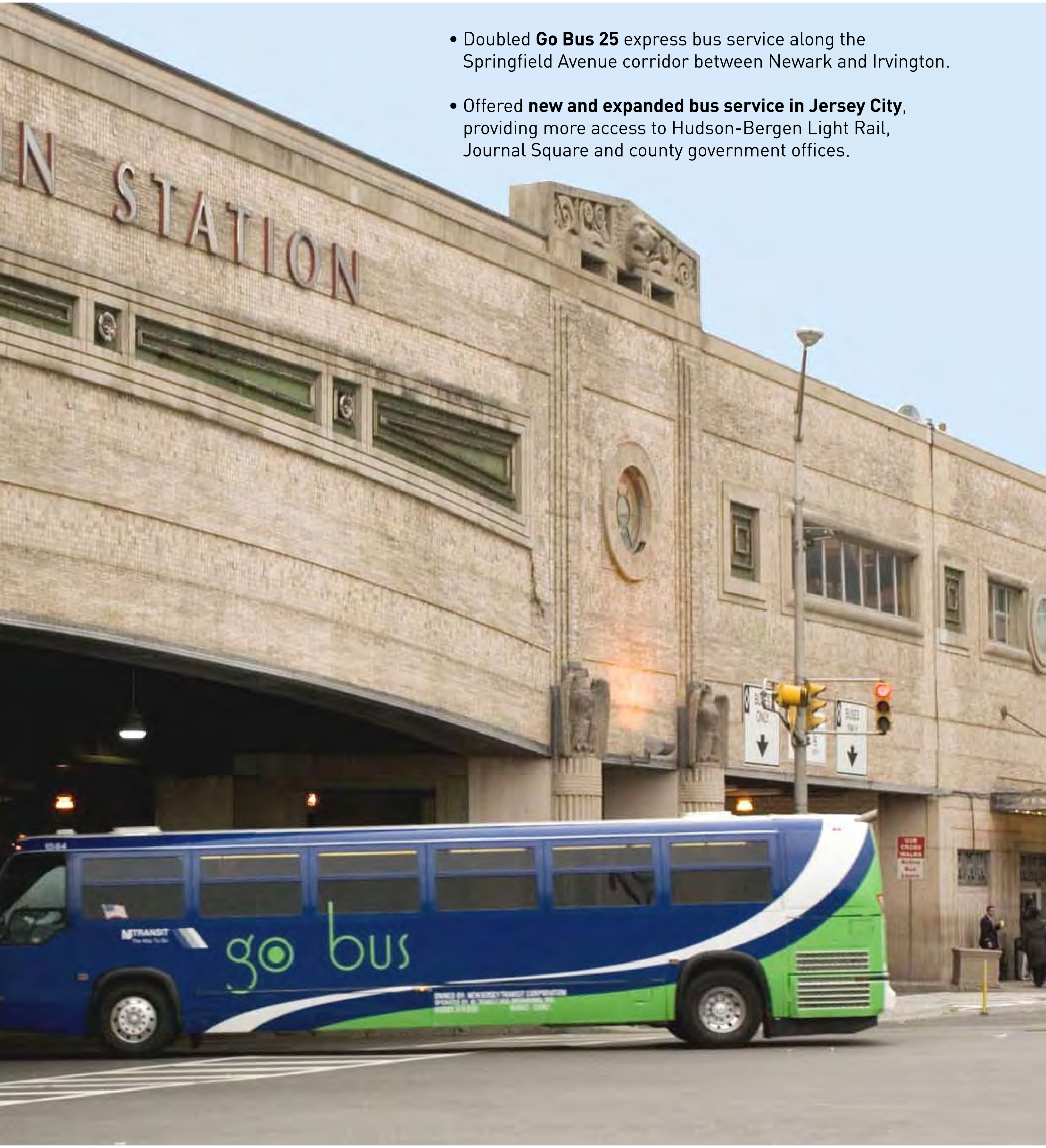
We broke ground on a major renovation and rehabilitation project at **Broadway Bus Terminal** in Paterson, which will include a new canopy over the bus lanes, new lighting, a public address system and bus departure screens.

We launched a project to upgrade customer communications at the **Port Authority Bus Terminal**, which includes real-time variable message signs, a public address system, improved TVM network connections and a closed-circuit camera system.

We installed new lighting and upgraded waiting rooms at **Norfolk Street and Park Avenue stations** on the Newark Light Rail system.



- Doubled **Go Bus 25** express bus service along the Springfield Avenue corridor between Newark and Irvington.
- Offered **new and expanded bus service in Jersey City**, providing more access to Hudson-Bergen Light Rail, Journal Square and county government offices.



- 1,100 spaces constructed by a private developer opened adjacent to the **Frank R. Lautenberg Station at Secaucus Junction**.

- 415 commuter spaces opened in a parking garage adjacent to **Morristown Station**, part of a larger $75 million transit village redevelopment project.

- 143 spaces opened at **North Hackensack Station**, nearly doubling the parking capacity to 291 spaces.

The State Board of Public Utilities approved a plan to fund and install **solar panels at the Meadows Maintenance Complex** (MMC) in Kearny, which will generate 1.1 megawatts of electricity to support operations at the MMC.

We completed installation of **Head-End Power Systems** at outlying diesel rail yards, reducing noise and emissions by allowing diesel locomotives to be shut down overnight.

We completed installation of **Variable Frequency Drives** (VFDs) on HVAC systems at Newark Penn Station and on air compressor systems at Howell, Market Street and Oradell garages to conserve energy and improve operating efficiencies.

We completed **energy audits** at 21 NJ TRANSIT facilities, identifying conservation opportunities that can be implemented over the next five years.

We opened **Long Slip Walkway** adjacent to Hoboken Terminal, part of a 20-mile recreational trail between Fort Lee and Bayonne. In addition to its recreational benefits, the new walkway provides Jersey City residents with a pedestrian-friendly route to Hoboken Terminal.

- Completed roof replacement work at **Chatham, Raritan and White House train stations**.

- Installed a new drop table and advanced construction of an extension of the engine house at the **Meadows Maintenance Complex**.

- Completed rehabilitation work on the **Navesink River Bridge**, which connects Red Bank and Middletown on the North Jersey Coast Line.

- Continued rehabilitation work on the **Newark Draw Bridge**, which carries trains on the Morris & Essex and Montclair-Boonton lines over the Passaic River.

- Neared completion on the first phase of safety and rehabilitation work on the **Lower Hack Draw Bridge**.

- Advanced rehabilitation work on the **Ambrose Brook Bridge**, which crosses the Ambrose Brook on the Raritan Valley Line.

- Completed **HVAC upgrades** at Meadowlands, Greenville and Oradell garages and Newark Light Rail Vehicle Base Facility power substations.

- Began replacing all 1989-vintage fare registers and refurbishing 1,000 **electronic fareboxes** on all buses.

- Installed 188 next generation **Ticket Vending Machines** (TVMs).

- Piloted a project that allows customers to use **contactless bankcards** on three Hudson County bus routes, enabling single-fare-media transfers between NJ TRANSIT buses, PATH trains and select New York City subway lines.

- Launched a public beta test of "**DepartureVision™**," a new service that displays train departure boards on mobile devices.

- Began offering "**RSS feeds**" to customers for real-time updates on train, bus and light rail services.

In addition to our ARRA projects, work continued on a southern extension of Hudson-Bergen Light Rail to **8th Street Station** in Bayonne. The project is scheduled for completion in 2010.

We are moving ahead with an 11.4-mile **expansion of Hudson-Bergen Light Rail** along the Northern Branch from North Bergen to Tenafly, and have launched a study to identify the most effective way to expand Hudson-Bergen Light Rail from West Side Avenue to Route 440 in Jersey City.

We are advancing plans to deliver the eight-mile **Passaic-Bergen** rail project, which will serve nine stations between Hawthorne and Hackensack.

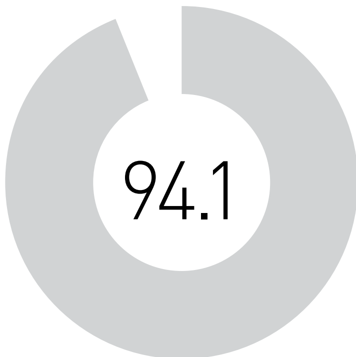
We are advancing the first phase of the **Lackawanna Cutoff** between Port Morris and Andover, which includes a new station in Andover with 65 parking spaces.

We launched the **Route 55/42/676 Bus Rapid Transit Alternatives Analysis**, which will examine new transportation strategies for this congested southern New Jersey corridor.

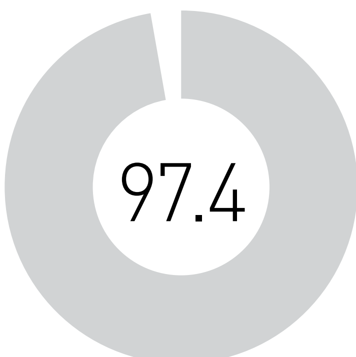
We will upgrade the Atlantic City Rail Line **Lindenwold Station**, which is shared by PATCO, to include a new climate-controlled waiting room, lighting, repainting of the pedestrian bridge and platform repairs. Construction is scheduled to begin in spring 2010.

We launched a study to examine the best approaches for **improving service on the Atlantic City Line**, including increased service frequency, identifying infrastructure needs, and determining the impacts of adding stations at Pennsauken, at the PATCO Woodcrest Station and near Atlantic City Airport.

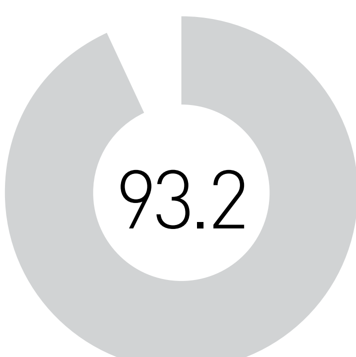
Working closely with the Governor, our state and federal elected leaders, our regional transportation partners, the private sector and the communities we serve, the future is bright. By providing New Jersey and the surrounding region with a comprehensive, interconnected, convenient and reliable transit system, NJ TRANSIT will remain the preferred choice of travel for generations to come.



RAIL



LIGHT RAIL



BUS

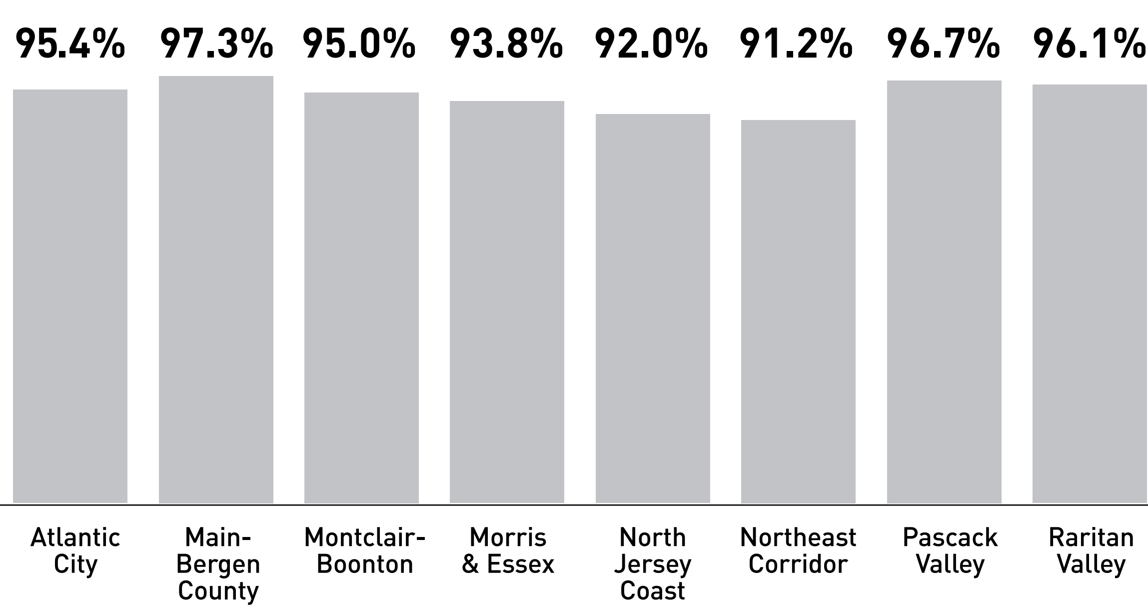
NJ TRANSIT considers a train to be on time if it arrives at its final destination within five minutes and 59 seconds of its scheduled time. Trains that fail to depart from their originating station or are canceled en route are considered late for recording purposes. This standard is used by all commuter railroads in the Northeast.

To accurately record on-time performance and maintain a database from which reports can be generated, NJ TRANSIT developed a mainframe-based computer system that calculates on-time performance and provides reports and analyses. It also provides input to other NJ TRANSIT systems.

NJ TRANSIT also uses a computer-based train dispatching system called Train Management and Control (TMAC) at its Rail Operations Center, which is synchronized with the atomic clock located at the Naval Observatory in Colorado. TMAC provides NJ TRANSIT with the ability to accurately record a train's arrival at its final destination.

Arrival times of trains operating on Amtrak's Northeast Corridor are recorded by the Amtrak delay clerk and forwarded to the supervisor at the Rail Operations Center at prescribed times during the day. An NJ TRANSIT supervisor, located at the Amtrak dispatching center in New York, reviews delays to ensure they are accurate before they are transmitted. Amtrak also uses a computerized software system to dispatch trains and record timing locations except in a section of the Northeast Corridor that includes Newark Penn Station. A tower operator, who visually observes when a train passes a specific signal, records the arrival times of Raritan Valley Line trains at Newark Penn Station.

NJ TRANSIT ON-TIME PERFORMANCE **BY RAIL LINE FY2009**

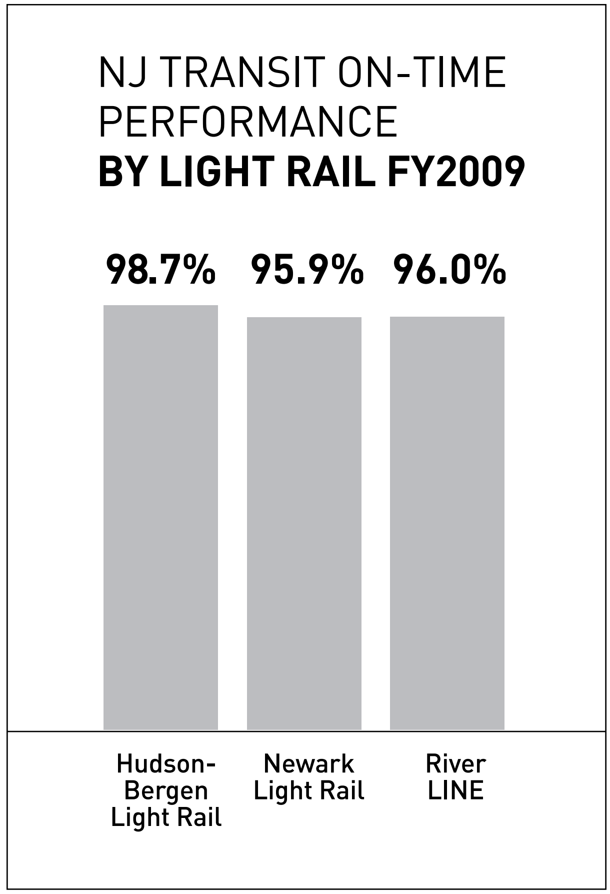


NJ TRANSIT monitors on-time performance using information management systems in its control centers. Train departure and arrival times are automatically tracked by computer systems that compare terminal departure and arrival times to the times posted in the public timetable.

A Hudson-Bergen Light Rail train is counted as late if it leaves its origin terminal ahead of schedule or arrives at its final destination terminal more than four minutes and 59 seconds late. A River LINE train is late if it arrives at its final destination terminal more than five minutes and 59 seconds late.

On Newark Light Rail, a train operated as a separate segment between Newark Penn Station and Broad Street Station is considered late if it leaves its origin terminal ahead of schedule or arrives at its final destination after three minutes. On the segment between Grove Street Station and Newark Penn Station and on through service from Grove Street Station to Broad Street Station, a train is considered late if it leaves its origin terminal ahead of schedule or arrives at its final destination after five minutes.

NJ TRANSIT conducts audits of the information management and reporting systems to ensure the accuracy of the data.

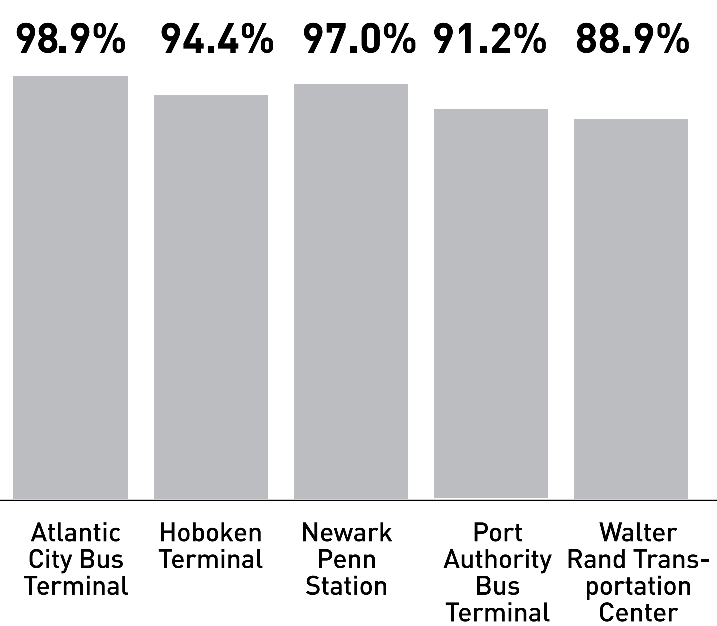


NJ TRANSIT records on-time performance at the following bus terminals:

- **Atlantic City Bus Terminal** – seven days a week, 24 hours a day
- **Hoboken Terminal** – weekdays from 2:30 p.m. to 6:30 p.m.
- **Newark Penn Station** – weekdays from 2:30 p.m. to 6:30 p.m.
- **Port Authority Bus Terminal** – weekdays from 3:30 p.m. to 7 p.m.
- **Walter Rand Transportation Center** – weekdays from 6 a.m. to 10 a.m. and 2 p.m. to 6 p.m.

Any bus that departs the terminal within five minutes and 59 seconds of its scheduled departure is considered on time. Station Starters at these locations are responsible for logging passenger counts, delays, and their causes.

NJ TRANSIT ON-TIME PERFORMANCE **BY BUS TERMINAL FY2009**

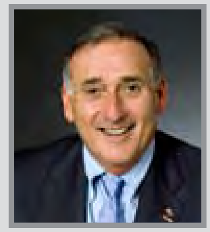


STEPHEN DILTS
BOARD CHAIRMAN

Stephen Dilts was sworn in as Commissioner of the New Jersey Department of Transportation (NJDOT) on December 16, 2008. In his capacity as Commissioner, Steve also serves as Chairman of NJ TRANSIT, the New Jersey Turnpike Authority and the South Jersey Transportation Authority, overseeing a total of 17,000 employees, more than $4 billion in capital funds and over $2 billion in operating funds. From 2002 to 2006, Steve served at the New Jersey Turnpike Authority, first as Chief of Staff, then as Deputy Executive Director, Operations. In this capacity, Steve managed the Maintenance, Toll and Operations departments. He assisted in the development and execution of plans for critical projects, including the consolidation of the Turnpike and Highway Authorities, One-Way Tolling, Express E-ZPass, Turnpike and Parkway widening and the Statewide Traffic Management Center in Woodbridge. Steve received a Bachelor of Arts degree in Political Science from Boston University and a Masters degree in Government Administration from the University of Pennsylvania, Fels Institute of Government. He resides in Hampton Borough.

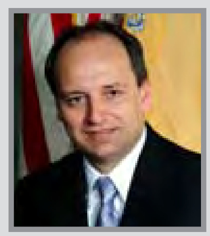
JAMES A. CAREY JR.
GOVERNOR'S REPRESENTATIVE

James A. Carey Jr. was named Director of the Authorities Unit in the Office of Governor Jon S. Corzine in April 2008. He previously served as an Assistant Counsel in the Authorities Unit for Governor Corzine and Governor Richard J. Codey. Prior to joining the Governor's Office, he served as a Deputy Attorney General in the New Jersey Attorney General's Office from 2001 to 2005. He also serves on the Boards of the Delaware Valley Regional Planning Commission and the North Jersey Transportation Planning Authority. He graduated from the University of South Carolina in 1990, and received a law degree in 1994 from Seton Hall School of Law, where he was an associate editor of the Law Review. He lives in Hoboken.



MYRON P. SHEVELL
VICE CHAIRMAN

Myron P. Shevell was appointed to the Board by Governor Christine Todd Whitman in May 1995. He is Chairman of the Board of New England Motor Freight and Chairman of the Shevell Group – real estate, trucking and logistic companies. He also is Board Chairman of New Jersey Motor Truck Association. Mr. Shevell has worked in the transportation industry for more than 60 years and resides in Long Branch.



R. DAVID ROUSSEAU
STATE TREASURER

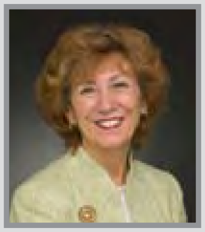
R. David Rousseau was sworn in as State Treasurer on April 7, 2008. Prior to that time, Mr. Rousseau served as Senior Advisor to the Governor for Budget and Fiscal Policy and Deputy State Treasurer. He worked closely with the Governor and Treasurer in developing and implementing the annual state budget and other fiscal policy issues. He served as Deputy State Treasurer from 2002 until 2006 and provided policy guidance to the Governor, Treasurer and Governor's office. He also oversaw the operations of the Office of Management and Budget and participated in the operations of the Division of Taxation, Division and Pensions and Benefits and the Office of Public Finance. Mr. Rousseau was Senior Policy Advisor to the Senate President, focusing on the budget before returning to the Treasury Department. He served as the Budget Director for the Senate Democratic Office from 1990 to 2002. He moved to the Senate staff after serving as Research and Project Coordinator for the Election Law Enforcement Commission. Mr. Rousseau has a bachelor's degree from Temple University and holds an MBA from Rider University. He lives in Hamilton.

KENNETH E. PRINGLE, ESQ.

Kenneth E. Pringle is the managing partner of Pringle Quinn Anzano, P.C., a 25-attorney law firm with offices in Belmar, Morristown and Trenton. His practice is focused primarily on complex insurance and financial fraud litigation and land use matters. Mr. Pringle has served as the Mayor of Belmar, a Transit Village, since 1990, and is the Borough Attorney for the Borough of Red Bank. He also is a member of the Belmar Planning Board. Mr. Pringle resides in Belmar.

FLORA M. CASTILLO

Flora M. Castillo has served on the Board since 1999. She is Vice President of Corporate Marketing at AmeriHealth Mercy, the largest family of Medicaid Health Plans in the United States headquartered in Philadelphia. She serves on the boards of the American Public Transportation Association, American Public Transportation Foundation and The Alan M. Voorhees Transportation Center Advisory Board at Rutgers University. She is a founding member of the NJ COMTO Chapter and serves as a board member. Ms. Castillo also is a member of APTA's Executive Committee and is the Vice Chair of Transit Board Members. She is a member of the boards for the Philadelphia Police Athletic League, Greater Philadelphia Health Action and Latinas United for Political Empowerment. Ms. Castillo is a resident of Ventnor.



SUSAN L. HAYES

Susan L. Hayes is President and CEO of Cauldwell Wingate Company, LLC. A strong advocate for the recruitment and advancement of women in the construction industry, Ms. Hayes is a long-standing member of the Board for Non-Traditional Employment for Women, an organization that trains women for jobs in the building trades, the utilities and transportation industries, and in facilities repair and maintenance. In 2005, Ms. Hayes was appointed to Mayor Bloomberg's Commission on Construction Opportunity and in 2007 was appointed to the Mayor's Career and Technical Task Force. Ms. Hayes holds leadership positions in a number of business and professional groups and associations. She currently serves on the Board of Directors of Apple Bank for Savings, is a Vice Chair on the Board of Directors of the New York Building Congress, is First Vice President of the Contractors' Association of Greater New York and is a member of the AIA-NY Advisory Board. She has served on the Board of Governors of the Building Trades Employers' Association and is a past Municipal Chair in Oradell in Bergen County, where she resides. She earned a Bachelor of Arts degree in Correctional Administration from John Jay College, City University of New York.

ROBERT SHANE
GOVERNOR'S ALTERNATE REPRESENTATIVE

PATRICK W. O'CONNOR
TREASURER'S REPRESENTATIVE

ADVISORY COMMITTEES

To assure citizen representation, two transit advisory committees — one serving North Jersey and another South Jersey — regularly advise the Board of Directors on passengers' opinions. Committee members are appointed by the Governor with the approval of the State Senate.

NORTH JERSEY TRANSIT ADVISORY COMMITTEE

SUZANNE T. MACK, CHAIR
RONALD MONACO, VICE CHAIR
NINO COVIELLO
MICHAEL DECICCO
KATHY EDMOND
MARGARET HARDEN
STEVEN MONETTI
TIMOTHY O'REILLY
RALPH WHITE
WILLIAM R. WRIGHT

SOUTH JERSEY TRANSIT ADVISORY COMMITTEE

ANNA MARIE GONNELLA-ROSATO, CHAIR
RUTH BYARD, VICE CHAIR
JEFFREY MARINOFF, 2ND VICE CHAIR
ROBERT DAZLICH, SECRETARY
RICHARD D. GAUGHAN
CALVIN O. ISZARD JR.
DANIEL KELLY
VAL ORSINMARSI
DOMINICK PAGLIONE
FRED WINKLER

The Americans with Disabilities Act (ADA) Task Force includes individuals with disabilities who assist NJ TRANSIT in the implementation of its ADA improvements plan.

ADA TASK FORCE

FRANK COYE
DOUG GILBERT
JUDY GOLDMAN
FRANCIS GRANT
NANCY HODGINS
LEE NASH
BARBARA SMALL
BILL SMITH
MARYANNE VALLS
INA WHITE

The Private Carrier Advisory Committee was created in 1986 to monitor the concerns of New Jersey's private carriers.

PRIVATE CARRIER ADVISORY COMMITTEE

FRANCIS A. TEDESCO, CHAIR
ROBERT B. DECAMP JR.
DONALD MAZZARISI
DALE R. MOSER

The Local Programs Citizens Advisory Committee advises NJ TRANSIT on public transit decisions regarding accessibility issues.

LOCAL PROGRAMS CITIZENS ADVISORY COMMITTEE

RICHARD BARTELLO, CHAIR
ERNEST ANEMONE, 1ST VICE CHAIR
DAVID PETER ALAN, 2ND VICE CHAIR
KATHLEEN BELLES
DON BRAUCKMANN, SR.
ELLEN BROCKMANN
ANN BURNS
LOUISE DANCE
TONY HALL
GARY JOHNSON
MARYANN MASON
HENRY NICHOLSON
SAM PODEITZ
RUEZALIA RAY
MARIANNE VALLS
MARGARET VAS
MICHAEL VIEIRA
WILLIAM R. WRIGHT

One Penn Plaza East
Newark, New Jersey 07105-2246
www.njtransit.com

NJ TRANSIT
The Way To Go.

FISCAL YEAR
2009

NJ TRANSIT CONSOLIDATED FINANCIAL STATEMENTS

NJ TRANSIT
The Way To Go.

CONTENTS

Ernst & Young LLP
99 Wood Avenue South
P.O. Box 751
Iselin, New Jersey 08830-0471

732 516 4200
www.ey.com

Report of Independent Auditors

Board of Directors of
New Jersey Transit Corporation

We have audited the accompanying consolidated financial statements of the New Jersey Transit Corporation and subsidiaries (the "Corporation"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and subsidiaries as of June 30, 2009 and 2008, and the consolidated changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, as of July 1, 2008, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

Management's Discussion and Analysis and required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

September 30, 2009

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial position and changes in financial position of the Corporation as of and for the fiscal year ended June 30, 2009. This discussion and analysis covers the last three fiscal years and is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial position and performance. NJ TRANSIT encourages readers to consider the information presented in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to NJ TRANSIT's consolidated financial statements and the notes thereto. Since the Corporation comprises a single enterprise fund, no fund-level financial statements are presented.

NJ TRANSIT's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to government units.

In accordance with GAAP, NJ TRANSIT's revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of NJ TRANSIT are included in the Consolidated Statements of Fund Net Assets, and depreciation of capital assets is recognized in the Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets.

The consolidated financial statements provide both long-term and short-term information about NJ TRANSIT's overall financial status. The consolidated financial statements also include footnotes that provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The **Consolidated Statements of Fund Net Assets** report NJ TRANSIT's net assets and the changes thereto. Net assets, the difference between NJ TRANSIT's assets and liabilities, over time, may serve as a useful indicator of NJ TRANSIT's financial position.

The **Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets** show NJ TRANSIT's operating results and how its net assets changed during the fiscal year. All revenues, expenses and changes in net assets are reported on the accrual basis of accounting, which reports the event as it occurs, rather than when cash changes hands (cash basis of accounting).

The **Consolidated Statements of Cash Flows** report how NJ TRANSIT's cash and cash equivalents increased or decreased during the year. The statements show how cash and cash equivalents were provided by and used in NJ TRANSIT's operating, non-capital financing, capital and related financing, and investing activities. The net increase or decrease in NJ TRANSIT's cash and cash equivalents is added to or subtracted from the balance at the beginning of the year to arrive at the cash and cash equivalents balance at the end of the year. NJ TRANSIT uses the direct method of presenting cash flows, which includes a reconciliation of operating income or loss to operating activities.

The **Notes to the Financial Statements** are an integral part of the financial statements and provide information that is essential to a full understanding of the statements.

The **Required Supplementary Information** presents the information regarding NJ TRANSIT's progress in funding its obligation to provide pension benefits and postemployment benefits other than pensions to its employees.

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2009

- Total operating revenues for NJ TRANSIT were $828.9 million in fiscal year 2009, a decrease of $0.3 million compared to the prior fiscal year. Passenger revenue decreased $6.3 million, or 0.8 percent, reflecting a decline in ridership in the latter part of fiscal year 2009, which has continued into fiscal year 2010. Other operating revenues increased $6.0 million, or 8.8 percent.

- Total operating expenses before depreciation were $1,836.7 million in fiscal year 2009, an increase of $126.7 million, or 7.4 percent, over the prior fiscal year. This increase is principally related to increases in employment costs, outside services and claims and insurance.

- Total net assets at June 30, 2009 were $5,379.3 million, a decrease of $54.5 million, or 1.0 percent, under total net assets at June 30, 2008.

- Total capital assets (net of depreciation) were $7,441.0 million at June 30, 2009, a net increase of $255.5 million, or 3.6 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of an increase in capital projects in process expenditures (table A-4).

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2008

- Total operating revenues for NJ TRANSIT were $829.2 million in fiscal year 2008, an increase of $91.3 million, or 12.4 percent, over the prior fiscal year. Passenger revenue increased $83.2 million, or 12.3 percent, reflecting the fare increase implemented in June 2007 and a 2.9 percent increase in ridership. Other operating revenues increased $8.1 million, or 13.4 percent.

- Total operating expenses before depreciation were $1,709.9 million in fiscal year 2008, an increase of $102.7 million, or 6.4 percent, over the prior fiscal year. This increase is principally related to increases in employment costs, contracted services, fuel and propulsion and purchased transportation.

- Total net assets at June 30, 2008 were $5,433.8 million, an increase of $259.1 million, or 5.0 percent, over total net assets at June 30, 2007.

- Total capital assets (net of depreciation) were $7,185.5 million at June 30, 2008, a net increase of $138.9 million, or 2.0 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles, improvements to the right-of-way, land acquisitions and improvements to buildings and structures.

FINANCIAL ANALYSIS
NET ASSETS

NJ TRANSIT's total net assets at June 30, 2009 were $5,379.3 million, a decrease of $54.5 million, or 1.0 percent, under June 30, 2008 (Table A-1). Total assets increased $169.3 million (1.7 percent) and total liabilities increased $223.7 million (5.1 percent).

NJ TRANSIT's total net assets at June 30, 2008, were $5,433.8 million, an increase of $259.1 million, or 5.0 percent, over June 30, 2007 (Table A-1). Total assets increased $286.9 million (3.0 percent) and total liabilities increased $27.8 million (0.6 percent).

TABLE A-1
NJ TRANSIT FUND NET ASSETS *(in millions)*

	AS OF JUNE 30,			%INC/(DEC)	
	2009	2008	2007	2009/2008	2008/2007
Current assets	$507.7	$425.1	$388.7	19.4	9.4
Restricted assets	2,003.2	2,174.2	2,061.1	(7.9)	5.5
Capital assets, net	7,441.0	7,185.5	7,046.6	3.6	2.0
Other assets	23.5	21.3	22.9	10.3	(7.0)
TOTAL ASSETS	**9,975.4**	**9,806.1**	**9,519.3**	**1.7**	**3.0**
Current liabilities	725.2	696.8	763.3	4.1	(8.7)
Notes payable	2,192.0	1,954.4	1,910.7	12.2	2.3
Postemployment benefits	153.6	112.5	74.9	36.5	50.2
Long-term debt	1,382.1	1,493.3	1,480.0	(7.5)	0.9
Other non-current liabilities	143.2	115.4	115.7	24.1	(0.3)
TOTAL LIABILITIES	**4,596.1**	**4,372.4**	**4 ,344.6**	**5.1**	**0.6**
Fund Net Assets					
Invested in capital assets, net of related debt	5,615.5	5,559.2	5,465.8	1.0	1.7
Restricted net assets	2.0	1.6	9.1	25.0	(82.4)
Deficit in unrestricted net assets	(238.2)	(127.0)	(300.2)	87.6	(57.7)
TOTAL FUND NET ASSETS	**$5,379.3**	**$5,433.8**	**$5,174.7**	**(1.0)**	**5.0**

FISCAL YEAR 2009

The 19.4 percent increase in current assets in fiscal year 2009 reflects an increase in accounts receivables due from the federal government and the State of New Jersey, which is reflected in an offsetting decrease in cash and cash equivalents. Restricted assets decreased 7.9 percent as a result of payments for the acquisition of rolling stock and service improvements and expansion. Of the $7,441.0 million in capital assets, net, $965.0 million represents construction in process; $6,135.3 million represents NJ TRANSIT's investment in buildings, structures, track, locomotives, railcars and buses, net of depreciation; and $340.7 million represents other capital assets.

The 12.2 percent increase in notes payable reflects the issuance of $394.3 million of Certificates of Participation. The proceeds from the sale of these certificates are being used to acquire 181 multilevel railcars, 4 dual-power locomotives and spare parts.

The 36.5 percent increase in postemployment benefits reflects the fiscal year 2009 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The 24.1 percent increase in other non-current liabilities reflects an increase in Federal Employee Liability Act and third-party injury and damage claims reserves related to adverse court awards and the ongoing reassessment of NJ TRANSIT's reserves for unsettled claims based on available information as well as an increase in deferred revenues which will be utilized for future asset purchases.

By far, the largest portion of NJ TRANSIT's total net assets reflects its investment in capital assets, net of related debt, used to acquire the assets. NJ TRANSIT utilizes these capital assets to provide services and, consequently, these assets are not available to liquidate liabilities or for any other expenditures.

Restricted net assets include proceeds from the sale of capital assets and an escrow deposit for potential environmental cleanup activity related to the Access to the Regions Core (The Mass Transit Tunnel) project.

FISCAL YEAR 2008

The 9.4 percent increase in current assets in fiscal year 2008 reflects an increase in cash and cash equivalents. Restricted assets increased 5.5 percent as a result of the issuance of $309.2 million of Certificates of Participation. The proceeds from the sale of these certificates are being used to acquire 27 electric locomotives and 37 multilevel railcars. Of the $7,185.5 million in capital assets, net, $649.6 million represents construction in progress; $6,195.2 million represents NJ TRANSIT's investment in buildings, structures, track, locomotives, railcars and buses, net of depreciation; and $340.7 million represents other capital assets.

The 8.7 percent decrease in current liabilities was the result of a decrease in accrued payroll and benefits reflecting contract settlements of both Bus and Rail bargaining units' employees.

The 50.2 percent increase in postemployment benefits reflects the fiscal year 2008 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

By far, the largest portion of NJ TRANSIT's total net assets reflects its investment in capital assets, net of related debt, used to acquire the assets. NJ TRANSIT utilizes these capital assets to provide services and, consequently, these assets are not available to liquidate liabilities or for any other expenditures.

Restricted net assets include proceeds from the sale of capital assets. The 82.4 percent decrease in restricted net assets was due to the release of funds for operations, which was in compliance with related guidelines.

CHANGES IN NET ASSETS

The decrease in net assets in fiscal year 2009 was $54.5 million, or 1.0 percent, compared to the fund net assets in fiscal year 2008 (Table A-1). NJ TRANSIT's total operating revenues decreased $0.3 million and total operating expenses, before depreciation, increased $126.8 million, or 7.4 percent. Depreciation decreased $90.2 million or 15.6 percent. Net capital contributions decreased $354.5 million, or 38.6 percent.

The increase in net assets in fiscal year 2008 was $259.1 million, or 5.0 percent, compared to the fund net assets, in fiscal year 2007 (Table A-2). NJ TRANSIT's total operating revenues increased $91.3 million, or 12.4 percent, and total operating expenses, before depreciation, increased $102.7 million, or 6.4 percent. Depreciation increased $86.4 million, or 17.5 percent. Net capital contributions increased $381.0 million, or 70.8 percent.

TABLE A-2
CHANGES IN NJ TRANSIT FUND NET ASSETS *(in millions)*

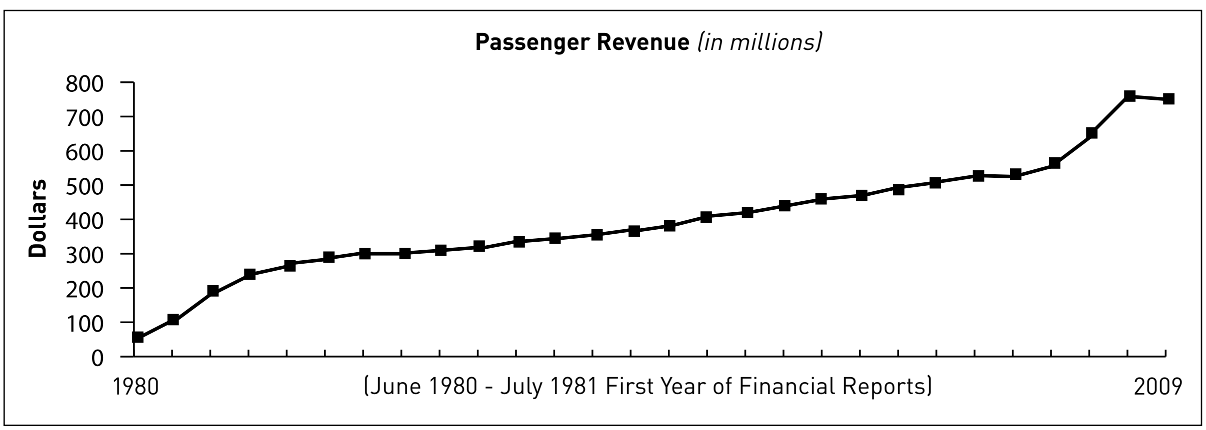
	YEARS ENDED JUNE 30			% INC/(DEC)	
	2009	**2008**	**2007**	**2009/2008**	**2008/2007**
Operating Revenues					
Passenger Fares	$754.4	$760.7	$677.5	(0.8)	12.3
Other	74.5	68.5	60.4	8.8	13.4
Total Operating Revenues	**828.9**	**829.2**	**737.9**	**—**	**12.4**
Operating Expenses					
Total operating expenses before depreciation	1,836.7	1,709.9	1,607.2	7.4	6.4
Depreciation	489.7	579.9	493.5	(15.6)	17.5
Total Operating Expenses	**2,326.4**	**2,289.8**	**2,100.7**	**1.6**	**9.0**
Operating Loss	**(1,497.5)**	**(1,460.6)**	**(1,362.8)**	**2.5**	**7.2**
Non-operating revenues, net	878.6	800.8	813.6	9.7	(1.6)
Capital contributions, net	564.4	918.9	537.9	(38.6)	70.8
Change in Fund Net Assets	**(54.5)**	**259.1**	**(11.3)**	**—**	**—**
Total Fund Net Assets, Beginning	**5,433.8**	**5,174.7**	**5,186.0**	**5.0**	**(0.2)**
Total Fund Net Assets, Ending	**$5,379.3**	**$5,433.8**	**$5,174.7**	**(1.0)**	**5.0**

OPERATING REVENUES

Operating revenues are composed of passenger fares and other operating revenues.

PASSENGER FARE REVENUES

Passenger fare revenues consist of fares earned during the year from the sale of tickets and monthly passes and bus farebox receipts.



Rail passenger revenue for fiscal year 2009 decreased $9.6 million, or 2.3 percent, with ridership declining by 0.9 million passenger trips, or 1.1 percent. Bus passenger revenue increased $0.2 million, or 0.1 percent, with ridership increasing by 0.7 million passenger trips, or 0.4 percent. Light rail passenger revenues, consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, increased $0.4 million, or 1.8 percent, with ridership increasing by 1.0 million passenger trips, or 4.7 percent.

Rail passenger revenue for fiscal year 2008 increased $50.9 million, or 13.6 percent, with ridership increasing by 4.0 million passenger trips, or 5.1 percent. Bus passenger revenue increased $28.3 million, or 9.9 percent, with ridership increasing by 1.4 million passenger trips, or 0.9 percent. Light rail passenger revenues, consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, increased $3.3 million, or 18.8 percent, with ridership increasing by 2.2 million passenger trips, or 11.5 percent.

TABLE A-3
RIDERSHIP *(in millions)*

				% INC/(DEC)	
	FY09	**FY08**	**FY07***	**2009/2008**	**2008/2007**
Rail Lines					
Newark Division	51.9	52.9	50.3	(1.9)	5.2
Hoboken Division	28.4	28.3	26.9	0.4	5.2
Atlantic City	1.3	1.3	1.3	—	—
Total	**81.6**	**82.5**	**78.5**	**(1.1)**	**5.1**
Bus Lines					
Northern Division	70.0	69.0	67.7	1.4	1.9
Central Division	71.1	71.2	70.9	(0.1)	0.4
Southern Division	25.3	25.5	25.7	(0.8)	(0.8)
Total	**166.4**	**165.7**	**164.3**	**0.4**	**0.9**
Light Rail Lines					
Newark Light Rail	6.1	6.2	6.0	(1.6)	3.3
Hudson-Bergen Light Rail	13.2	12.4	10.7	6.5	15.9
River LINE	3.0	2.7	2.4	11.1	12.5
Total	**22.3**	**21.3**	**19.1**	**4.7**	**11.5**
Total Ridership	**270.3**	**269.5**	**261.9**	**0.3**	**2.9**

*Adjusted

FISCAL YEAR 2009

OTHER OPERATING REVENUES

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The increase in other operating revenues of $6.0 million, or 8.8 percent, was principally due to an increase in parking lot income, revenue from Metro-North Operations and contract revenue related to the implementation of the Atlantic City Express Rail service (ACES) in February 2009.

OPERATING EXPENSES

Operating expenses consist of employment costs, depreciation and other operating costs.

EMPLOYMENT COSTS

Employment costs consist of full-time and part-time agreement employees' regular wages and related overtime costs, non-agreement salaries, employment taxes, health and welfare expenses, retirement costs and other fringe benefits.

Employment costs increased by $81.4 million, or 8.3 percent. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and overtime cost increases associated with service disruptions and the inclement weather conditions experienced during the winter months of fiscal year 2009. NJ TRANSIT's health care and pension expenses also increased, further impacting overall employment costs. This increase also includes the impact of the fiscal year 2009 incremental costs related to GASB Statement No. 45, which requires the recording of non-pension, "other postemployment benefits (OPEB)."

OTHER OPERATING COSTS

Other operating costs include parts, materials and supplies, outside services, claims and insurance, fuel and propulsion, trackage, tolls and fees, utilities, purchased transportation and other expenses.

Parts, materials and supplies expenses increased $10.0 million, or 7.2 percent, due to an increase in consumption of parts and materials during fiscal year 2009 utilized for repairs and rehabilitation of NJ TRANSIT's revenue vehicles.

Outside services expenses increased $12.8 million, or 12.4 percent, as a result of additional costs for environmental remediation, management consultants, custodial services, contracted snow removal, electronic equipment services and security.

Claims and insurance expenses increased $25.5 million, or 79.2 percent, reflecting the effect of additional costs associated with the Federal Employee Liability Act and third-party injury and damage claims related to adverse court awards and the reassessment of reserve needs for unsettled claims. In addition, claims and insurance expenses were impacted by increased costs for workmen's compensation and employee claims settlements.

Fuel and propulsion expenses decreased $22.0 million, or 13.9 percent, as a result of a $0.59 per gallon decrease in the cost of diesel fuel, along with a reduction in diesel fuel consumption of approximately 230,000 gallons.

Trackage, tolls and fees expenses increased $3.2 million, or 7.8 percent, reflecting an increase in the charges from Amtrak for access fees to operate train service on the Northeast Corridor, as well as, increases in tolls paid on highways, bridges and tunnels.

Utilities expenses increased $4.6 million, or 11.0 percent, due to increased costs for non-propulsion electricity, heating and telephones.

Purchased transportation expenses increased $8.4 million, or 4.4 percent, due to increased costs for contract carrier bus service, Access Link (ADA) services, the Senior Citizen and Rural Transportation programs, and operation of the Hudson-Bergen Light Rail and River LINE systems.

Depreciation expense decreased by $90.2 million, or 15.6 percent, compared to fiscal year 2008. The decrease is attributable to the increase in depreciation in 2008 which is the result of the capitalization of a significant amount of assets from construction in progress. The fiscal year 2009 expense reflects a return to normal depreciation levels.

NON-OPERATING REVENUES

Non-operating revenues, net, increased $77.8 million, or 9.7 percent, attributable to increases in the state appropriation for fiscal year 2009 and increased governmental reimbursements, partially offset by an increase in interest expense. Federal, state and local reimbursements, which represents funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities, increased $43.2 million, or 7.3 percent, compared to the prior fiscal year.

CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Further information about federal, state and local interest in assets acquired and constructed is provided in Note 17, Net Assets. Funding of capital grant expenditures totaling $564.4 million was $354.5 million, or 38.6 percent, below fiscal year 2008.

Major capital projects during the year included the Mass Transit Tunnel, the acquisition and rehabilitation of revenue vehicles, and construction of and improvements to passenger and support facilities and rail infrastructure.

FISCAL YEAR 2008

OTHER OPERATING REVENUES

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The increase in other operating revenues of $8.1 million, or 13.4 percent, was principally due to an increase in parking lot income, contract revenue, rental income and revenue from Metro-North Operations.

OPERATING EXPENSES

Operating expenses consist of employment costs, depreciation and other operating costs.

EMPLOYMENT COSTS

Employment costs consist of full-time and part-time agreement employees' regular wages and related overtime costs, non-agreement salaries, employment taxes, health and welfare expenses, retirement costs and other fringe benefits.

Employment costs increased by $32.6 million, or 3.5 percent. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and overtime cost increases associated with service expansion and disruptions. NJ TRANSIT's health care and pension expenses also increased, further impacting overall employment costs. This increase also includes the impact of the incremental costs for fiscal year 2008 related to GASB Statement No. 45, which requires the recording of non-pension, "other postemployment benefits (OPEB)."

OTHER OPERATING COSTS

Other operating costs include parts, materials and supplies, outside services, claims and insurance, fuel and propulsion, trackage, tolls and fees, utilities, purchased transportation and other expenses.

Outside services expenses increased $14.4 million, or 16.2 percent, as a result of additional costs for contracted maintenance of facilities and revenue vehicles, electronic equipment services and security. In addition, service expenses were impacted by increased costs associated with various fiscal year 2008 project activities, such as environmental remediation, bridge inspections and painting, repairs to revenue vehicles and the Access to the Regions Core project (Mass Transit Tunnel).

Fuel and propulsion expenses increased $39.5 million, or 33.4 percent. Fuel expenses increased $33.3 million or 44.5 percent as a result of a $0.90 per gallon increase in the cost of diesel fuel, along with increased diesel fuel consumption of approximately 147,000 gallons. Propulsion expenses increased $6.2 million, or 14.8 percent, reflecting an increase in the charges from the National Railroad Passenger Corporation (Amtrak) for traction power on the Northeast Corridor rail line and increased propulsion power costs for the Hudson-Bergen Light Rail system.

Purchased transportation expenses increased $27.6 million, or 17.0 percent, due to increased costs for Access Link (ADA) services, the Senior Citizen and Rural Transportation program, and operation of the Hudson-Bergen Light Rail system and the River LINE system.

Depreciation expense increased by $86.4 million, or 17.5 percent, due to the capitalization of assets from construction in progress to equipment, some of which went into service in prior years. This resulted in a higher than normal level of depreciation for the year.

NON-OPERATING REVENUES

Non-operating revenues, net, decreased $12.8 million, or 1.6 percent, attributable to a reduction in income from financing arrangements and increased interest expense, partially offset by increased governmental reimbursements. Federal, state and local reimbursements, which represents funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities, increased $22.7 million, or 4.0 percent, compared to the prior fiscal year.

CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Further information about federal, state and local interest in assets acquired and constructed is provided in Note 17, Net Assets. Funding of capital grant expenditures totaling $918.8 million was $381.0 million, or 70.8 percent, above fiscal year 2007.

Major capital projects during the year included the Mass Transit Tunnel, the acquisition and rehabilitation of revenue vehicles, and construction of and improvements to passenger and support facilities and rail infrastructure.

TABLE A-4
NJ TRANSIT CAPITAL ASSETS *(net of depreciation)*
(in millions)

	AS OF JUNE 30,			% INC/(DEC)	
	2009	**2008**	**2007**	**2009/2008**	**2008/2007**
Capital projects in process	$965.0	$649.6	$767.5	48.6	(15.4)
Revenue vehicles	1,602.1	1,572.2	1,447.3	1.9	8.6
Buildings and structures	3,094.1	3,093.6	3,003.1	—	3.0
Track	1,346.7	1,417.1	1,444.3	(5.0)	(1.9)
Land	340.7	340.7	291.5	—	16.9
Equipment	92.4	112.3	92.9	(17.7)	20.9
Total Capital Assets, Net	**$7,441.0**	**$7,185.5**	**$7,046.6**	**3.6**	**2.0**

CAPITAL ASSETS

As of June 30, 2009, NJ TRANSIT had invested $12,613.2 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2009 totaled $7,441.0 million (Table A-4). This amount represents a net increase of $255.5 million, or 3.6 percent, over June 30, 2008 net capital assets.

As of June 30, 2008, NJ TRANSIT had invested $11,884.0 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2008 totaled $7,185.5 million (Table A-4). This amount represents a net increase of $138.9 million, or 2.0 percent, over June 30, 2007 net capital assets.

The 48.6 percent increase in capital projects in process was the result of an increase in capital project activity in fiscal year 2009 associated with the rail infrastructure program, improvements to rail passenger and support facilities, acquisition of and rehabilitation to revenue vehicles, and new initiatives, most notably the Mass Transit Tunnel project.

A 15.4 percent decrease in capital projects in process in fiscal year 2008 essentially reflects the transfer of capital project costs associated with the acquisition of buses, railcars and land and improvements to passenger and support facilities, revenue vehicles and buildings and structures as evidenced by the 8.6 percent, 16.9 percent and 3.0 percent increases in these categories, respectively.

The Board of Directors approved a fiscal year 2010 capital program that authorizes NJ TRANSIT to request funds totaling $1,385.0 million to provide for the continuation of the major projects currently underway, as well as new initiatives. Funds have been requested for rail, bus and light rail infrastructure improvements; the overhaul and maintenance of rolling stock; advancement of the Mass Transit Tunnel project; debt service related to the acquisition of revenue vehicles and new system expansion. Provisions also have been made to comply with all federally mandated accessibility and environmental regulations. Additional information about NJ TRANSIT's capital assets is presented in Note 5 to the financial statements.

DEBT OBLIGATIONS

Debt obligations outstanding at June 30, 2009, totaled $3,820.1 million compared with $3,791.2 million at June 30, 2008, an increase of 0.8 percent. Debt obligations outstanding at June 30, 2008, totaled $3,791.2 million compared with $3,778.2 million at June 30, 2007, an increase of 0.3 percent. The following table summarizes the changes in debt between fiscal years 2009, 2008 and 2007 *(in millions)*:

	AS OF JUNE 30,			% INC/(DEC)	
	2009	**2008**	**2007**	**2009/2008**	**2008/2007**
Notes payable	$2,367.5	$2,169.4	$2,115.2	9.1	2.6
Obligations under capital leases*	1,452.6	1,621.8	1,663.0	(10.4)	(2.5)
Total	**$3,820.1**	**$3,791.2**	**$3,778.2**	**0.8**	**0.3**

* Includes $1,368.1 million, $1,522.0 million and $1,548.6 million of leveraged lease transactions as of fiscal years 2009, 2008 and 2007, respectively.

Additional information about NJ TRANSIT's debt is presented in Notes 10 and 11 to the financial statements.

CONTACTING NJ TRANSIT FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and other interested parties with a general overview of NJ TRANSIT finances and to demonstrate NJ TRANSIT's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact New Jersey Transit Corporation, Chief Financial Officer and Treasurer, One Penn Plaza East, Newark, New Jersey 07105-2246.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUND NET ASSETS *(in thousands)*

	AS OF JUNE 30, 2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	$73,693	$235,469
Due from federal government	221,060	26,792
Due from State of New Jersey	64,831	27,563
Inventories, net	110,446	97,693
Other	37,648	37,545
Total Current Assets	**507,678**	**425,062**
Non-Current Assets		
Restricted cash and cash equivalents	2,030	1,550
Restricted investments	649,603	668,535
Restricted leveraged lease deposits	1,351,540	1,504,124
Other	23,522	21,399
Capital assets not being depreciated	1,305,692	990,310
Capital assets, net of accumulated depreciation	6,135,285	6,195,190
Total Non-Current Assets	**9,467,672**	**9,381,108**
Total Assets	**9,975,350**	**9,806,170**
LIABILITIES		
Current Liabilities		
Accounts payable	165,196	140,395
Accrued payroll and benefits	149,866	138,067
Current installments under capital leases	70,473	128,512
Short-term notes payable	175,507	214,998
Other current liabilities	164,126	74,832
Total Current Liabilities	**725,168**	**696,804**
Non-Current Liabilities		
Notes payable	2,192,041	1,954,416
Accrued injury and damage claims	66,715	53,169
Obligations under capital leases	1,382,103	1,493,298
Other postemployment benefits	153,603	112,464
Deferred revenue and other non-current liabilities	76,435	62,259
Total Non-Current Liabilities	**3,870,897**	**3,675,606**
Total Liabilities	**4,596,065**	**4,372,410**
NET ASSETS		
Invested in capital assets, net of related debt	5,615,514	5,559,234
Restricted for capital projects	2,030	1,550
Deficit in unrestricted net assets	(238,259)	(127,024)
Total Net Assets	**$5,379,285**	**$5,433,760**

See Notes to Consolidated Financial Statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS *(in thousands)*

	YEARS ENDED JUNE 30, 2009	2008
Operating Revenues		
Passenger fares	$754,402	$760,714
Other	74,486	68,520
Total Operating Revenues	**828,888**	**829,234**
Operating Expenses		
Labor	600,381	566,703
Fringe benefits	457,667	409,914
Parts, materials and supplies	149,482	139,495
Services	116,240	103,394
Claims and insurance	57,704	32,198
Fuel and propulsion	135,911	157,864
Trackage, tolls and fees	44,245	41,052
Utilities	46,245	41,652
Purchased transportation	198,325	189,920
Other	30,469	27,754
Total Operating Expenses, Before Depreciation	**1,836,669**	**1,709,946**
Loss Before Depreciation	**(1,007,781)**	**(880,712)**
Depreciation	(489,725)	(579,905)
Operating Loss	**(1,497,506)**	**(1,460,617)**
Non-Operating Revenues (Expenses)		
State appropriation	348,200	298,200
Federal, state and local reimbursements	636,854	593,700
Investment income	259	2,178
Income from financing arrangements	3,753	4,844
Other non-operating revenues	5,477	13,466
Interest expense	(115,944)	(111,552)
Total Non-Operating Revenues (Expenses)	**878,599**	**800,836**
Loss Before Capital Contributions	**(618,907)**	**(659,781)**
Capital contributions, net	564,432	918,843
Change in net assets	(54,475)	259,062
Total Net Assets, Beginning	**5,433,760**	**5,174,698**
Total Net Assets, Ending	**$5,379,285**	**$5,433,760**

See Notes to Consolidated Financial Statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS *(in thousands)*

	YEARS ENDED JUNE 30, 2009	2008
Cash Flows from Operating Activities		
Cash receipts from fares	$752,809	$764,009
Other cash receipts	97,578	68,748
Payments for claims	(39,122)	(31,522)
Payments to employees	(1,005,110)	(959,236)
Payments to suppliers	(703,815)	(695,773)
Net Cash Used by Operating Activities	**(897,660)**	**(853,774)**
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants and appropriations	1,063,067	892,653
Net Cash Provided by Non-Capital Financing Activities	**1,063,067**	**892,653**
Cash Flow from Capital and Related Financing Activities		
Proceeds from issuance of notes	755,842	321,111
Payment of obligations under capital leases	(16,202)	(14,546)
Interest payments	(115,944)	(111,552)
Repayment of note obligations	(557,706)	(266,932)
Purchase of capital assets	(819,943)	(778,223)
Capital grants	404,754	1,094,790
Net Cash (Used) Provided by Capital and Related Financing Activities	**(349,199)**	**244,648**
Cash Flows from Investing Activities		
Purchase of investments	(755,842)	(321,111)
Sales and maturities of investments	774,326	155,944
Interest on investments	259	2,178
Leveraged lease proceeds	—	4,728
Income from other financing activities	3,753	17,962
Net Cash Provided (Used) by Investing Activities	**22,496**	**(140,299)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(161,296)**	**143,228**
Cash and Cash Equivalents		
Beginning of Year	**237,019**	**93,791**
End of Year	**$75,723**	**$237,019**
Non-Cash Investing Activities		
Decrease in fair value of investments	$(3,802)	$(9,678)

See Notes to Consolidated Financial Statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES
(in thousands)

	YEARS ENDED JUNE 30, 2009	2008
Operating Loss	**$(1,497,506)**	**$(1,460,617)**
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation	489,725	579,905
Changes in Assets and Liabilities		
Inventories	(12,753)	(8,015)
Other current assets	(134)	2,367
Other non-current assets	(3,801)	1,528
Accounts payable	24,800	2,315
Accrued payroll and benefits	11,799	(20,087)
Other current liabilities	15,872	(4,123)
Accrued injury and damage claims	13,546	9,863
Other postemployment benefits	41,140	37,468
Deferred revenue and other non-current liabilities	19,652	5,622
Net Cash Used by Operating Activities	**$(897,660)**	**$(853,774)**

See Notes to Consolidated Financial Statements.

1. ORGANIZATIONS AND BUSINESS PURPOSE

Reporting Entity. The New Jersey Transit Corporation (NJ TRANSIT) is a component unit of the State of New Jersey created by the New Jersey Public Transportation Act of 1979. NJ TRANSIT is empowered with the authority to acquire, own, operate and contract for the operation of public passenger transportation services. NJ TRANSIT provides these services through the operations of wholly owned bus (NJ TRANSIT Bus Operations, Inc. and NJ TRANSIT Mercer, Inc.), commuter rail (NJ TRANSIT Rail Operations Inc.) and insurance (ARH III Insurance Co., Inc.) subsidiaries. NJ TRANSIT also contracts with several third-party providers for certain transportation services including the operation of two light rail lines. Under these contracts, NJ TRANSIT has the right to set fares and coordinate service levels and schedules. In addition, NJ TRANSIT contracts with the National Railroad Passenger Corporation (Amtrak) for the maintenance of certain NJ TRANSIT rolling stock and the use of Amtrak's Northeast Corridor, including propulsion costs, right-of-way maintenance costs and certain transportation management services.

NJ TRANSIT receives operating assistance and capital funds from the State of New Jersey by legislative appropriation; the federal government by defined formula; and discretionary grants under the federal Urban Mass Transportation Act of 1964 as amended by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, the Transportation Equity Act for the 21st Century (TEA-21) of 1998, the Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2005 (SAFETEA-LU), the American Recovery and Reinvestment Act of 2009, and local sources. The federal grants are administered by the Federal Transit Administration (FTA). These grants are used to support construction, acquisition and operation of public transportation facilities, equipment and services.

NJ TRANSIT is authorized to issue debt obligations and enter into leveraged lease transactions to finance portions of its system capital projects and operations, respectively.

NJ TRANSIT has a seven-member Board of Directors appointed by the governor with the consent of the state Senate. Two transit advisory committees – one serving North Jersey and another South Jersey – regularly advise the Board of Directors on passenger opinions. Committee members are appointed by the governor with the approval of the state Senate. NJ TRANSIT employs an executive director who manages the day-to-day operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The accounts are maintained and financial statements prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP) as they relate to enterprise funds of state and local governmental units. Also, NJ TRANSIT applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

In accordance with GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of NJ TRANSIT are included in the Consolidated Statements of Fund Net Assets and depreciation of capital assets is recognized in the Consolidated Statement of Revenues, Expenses and Changes in Fund Net Assets. The two principal sources of revenue are passenger fares and governmental operating assistance and reimbursements. Operating expenses include the costs of operating the system, administrative expenses and depreciation of capital assets.

New Accounting Pronouncement. In fiscal year 2009, NJ TRANSIT adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This standard addresses accounting and financial reporting standards for pollution remediation obligations (including contamination), which are obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessment and cleanups. This statement is intended to enhance comparability of financial statements among governments by requiring all governments to account for pollution remediation obligations in the same manner. This statement will also enhance the users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable (see Note 12).

In fiscal year 2008, NJ TRANSIT adopted the provisions of GASB Statement No. 50, *Pension Disclosures*. The objective of this statement is to amend note disclosure and required supplementary information standards of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 27, *Accounting* *for Pensions by State and Local Governmental Employers*, to conform with applicable changes adopted in Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement is intended to improve the transparency and usefulness of reported information about pensions by state and local governmental plans and employers (see Note 6).

Accounting Standards Issued But Not Yet Adopted. GASB Statement No. 51, (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007. GASB 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

This Statement also establishes guidance specific to intangible assets related to amortization. GASB 51 provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

This Statement, which is effective for NJ TRANSIT's 2010 year end, is not expected to have a significant impact on NJ TRANSIT's financial statements.

GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, was issued in June 2008. GASB 53, which establishes accounting and reporting requirements for derivative instruments, is effective for NJ TRANSIT's 2010 calendar year.

This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors and collars), swaptions, forward contracts, and futures contracts.

NJ TRANSIT is in the process of evaluating the impact of the adoption of GASB No. 53 on its financial statements.

Revenue and Expense Classification. NJ TRANSIT distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses primarily result from providing transportation services in connection with NJ TRANSIT's ongoing operations. The principal operating revenues are generated from passenger fares. NJ TRANSIT's operating expenses include employment costs, materials, services, claims and insurance, purchased transportation and other expenses related to the delivery of transportation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net Assets. Net Assets represent the difference between assets and liabilities and are classified into three categories:

- Invested in Capital Assets, Net of Related Debt – This reflects the net assets of NJ TRANSIT that are invested in capital assets, net of related debt. This indicates that these net assets are not accessible for other purposes.
- Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
- Deficit in Unrestricted Net Assets – This relates to net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted," as discussed above, such as the recognition of the liability for postretirement benefits other than pensions that exceed the net assets for general use. When both restricted and unrestricted resources are available for use, it is NJ TRANSIT's policy to use restricted resources first and then unrestricted resources, as they are needed.

Principles of Consolidation. The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries (blended component units). All inter-company transactions have been eliminated.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand, demand deposits and other short-term investments with maturities of three months or less when purchased.

Investments. All investments, except for investment agreements, are stated at fair value based on quoted market prices, as available (see Note 3). Investment agreements are collateralized, non-participating guaranteed investment contracts, which are carried at cost. Income from investments is recognized on the accrual basis. Realized gains or losses on sales of investment securities are accounted for using the specific identification method. NJ TRANSIT has elected to combine realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses include unrealized amounts from prior years.

Accounts Receivable. Accounts receivable, primarily amounts due from federal and state governments, are included with other current assets and are recorded net of an allowance for uncollectible amounts.

Capital Assets. All capital assets are recorded at cost and include revenue and non-revenue vehicles, buildings, stations, furniture, fixtures, other equipment and infrastructure assets (right-of-way, trackwork and bridges). Capital assets, which were acquired by the State of New Jersey, Department of Transportation and subsequently transferred to NJ TRANSIT at cost, are included in capital assets.

Capitalization Policy. Under NJ TRANSIT's policy, purchases exceeding $5,000 representing additions or betterments, with a useful life greater than one year, are capitalized. Ordinary maintenance and repairs are charged to expense as incurred.

Depreciation Policy. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets as follows:

	YEARS
Buildings, structures and trackwork	25
Railcars and locomotives	22-25
Buses, vans and light railcars	5-15
Furniture, fixtures and equipment	3-10

Capital Projects in Process. These are costs incurred by NJ TRANSIT for capital projects in various stages of completion and include all activities designed to construct, acquire or extend useful lives of existing capital assets.

Net Capitalized Interest. Net interest costs on funds borrowed to finance the construction or acquisition of certain capital assets, during the period of construction or acquisition, are capitalized and depreciated over the life of the related assets once placed in service.

Inventories. Fuel, spare parts and supplies purchased are recorded as inventories at average cost, net of a reserve for slow-moving and obsolete parts.

Injury and Damage Claims. Injury and damage claims are accrued at estimated award or settlement amounts when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. NJ TRANSIT is insured against public liability, property damage and Federal Employee Liability Act (FELA) claims through various levels of coverage placed with commercial insurance carriers and its wholly owned subsidiary, ARH III Insurance Co., Inc. Such coverage includes self-insured retention.

Note Premiums and Discounts. Underwriters' premiums and discounts, which are recorded net with Notes Payable, are deferred and amortized over the life of the debt in the financial statements using the effective interest method.

Interest Rate Swaps. NJ TRANSIT enters into interest rate swaps in order to manage risks associated with interest on its notes portfolio. As currently allowed under GAAP, NJ TRANSIT does not record the fair value or changes in fair value of interest rate swaps on the face of its financial statements (see Note 10).

Income Taxes. NJ TRANSIT is exempt from federal income taxes under the Internal Revenue Code, Section 115 and from state income taxes under N.J.S.A. 27:25-16. Accordingly, no provision is recorded for federal and state income taxes.

Other Postemployment Benefits. Other Postemployment Benefits (OPEB) cost for health care is measured and disclosed using the accrual basis of accounting (see Note 7). The annual OPEB cost is equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters.

Reclassifications. Certain reclassifications have been reflected in the fiscal year 2008 Consolidated Financial Statements to conform to the current year's presentation.

3. DEPOSITS AND INVESTMENTS

NJ TRANSIT's deposits and investments follow *(in millions)*:

	AS OF JUNE 30, 2009	2008
Current		
Cash on hand	$16.0	$12.4
Short-term investments	57.7	223.1
Total current cash and investments	73.7	235.5
Non-current		
Restricted cash on hand	2.0	1.6
Restricted investments	649.6	668.5
Restricted total non-current	651.6	670.1
Total Deposits and Investments	**$725.3**	**$905.6**

NJ TRANSIT's cash on deposit with various entities as of June 30, 2009 and 2008 totaled $19.8 million and $17.2 million, respectively.

ACCOUNT TYPE	BALANCE *(in millions)* 2008	2007
Insured	$1.4	$0.7
Insured held at NJ TRANSIT's locations	3.9	1.8
Uncollateralized:		
Held by bank trustees	—	0.1
Held by health care providers	3.8	4.7
Uninsured held by banks	10.7	9.9
Total	**$19.8**	**$17.2**

Custodial Credit Risk. Custodial credit risk is the risk that a bank failure would result in the forfeiture of NJ TRANSIT deposits. NJ TRANSIT does not have a policy for custodial credit risk. As of June 30, 2009 and 2008, $14.5 million and $14.7 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2009 and 2008 totaled $709.3 million and $893.2 million, respectively.

Investments	Fair Value *(in millions)* 2009	2008	Weighted Average Maturity in Years 2009	2008
State of NJ Cash Management Fund	$38.2	$90.9	.03	.05
Repurchase Agreements	648.8	626.1	.89	.68
U.S. Treasury/Securities	10.5	158.6	—	.09
Cash Equivalents	3.8	4.8	—	—
Other	8.0	12.8	—	—
Total	**$709.3**	**$893.2**		
Portfolio weighted average maturity (inclusive of proceeds from debt issuance)			.88	.56

Interest Rate Risk. In accordance with NJ TRANSIT's investment policy, NJ TRANSIT manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year. However, up to 25 percent of all investments may be invested in eligible securities, which mature within two years provided that the average maturity of all investments shall not exceed one year. Investments associated with the proceeds of debt issuance are governed by the related bond covenant agreements.

Credit Risk. NJ TRANSIT's investments are restricted to (a) United States Treasury Securities; (b) corporate obligations, provided they are rated Baa/BBB or better; (c) senior debt securities, provided such securities are rated at least AA; (d) commercial paper, which must have the highest prime rating and must be issued by a company incorporated in the United States; (e) certificates of deposit, both collateralized and uncollateralized (in the case of collateralization, the market value of the collateral must be 120 percent of the purchased price at the time of purchase); (f) repurchase agreements; (g) banker's acceptances; (h) loan participation notes; and (i) money market mutual funds. The restrictions pertaining to each class of these securities are outlined in NJ TRANSIT's investment policy and are strictly adhered to. Any deviation from the established risk is authorized by the Board of Directors.

NJ TRANSIT investment policy limits exposure to any single issuer to 20 percent of the investment portfolio. This restriction does not apply to issues of the U.S. government or its agencies that are explicitly guaranteed by the U.S. government or the State of New Jersey Cash Management Fund.

The investment of NJ TRANSIT funds is governed by NJ TRANSIT's By-Laws. The Treasurer is authorized to invest and deposit funds of NJ TRANSIT in obligation and/or depositories, which are generally consistent with the investment policies of the State of New Jersey Cash Management Fund as permitted under Public Law 1950 c.270 and subsequent legislation or as otherwise prescribed by the Board of Directors of NJ TRANSIT. Investee institutions and organizations qualify as depositories based on such criteria as minimum capital, credit ratings and other evaluation factors.

U.S. government and agencies obligations are guaranteed by the full faith and credit of the issuing entity and are held by NJ TRANSIT's escrow agent in an account for NJ TRANSIT. Repurchase agreements are uncollaterized and uninsured and are limited to investment-grade paper. The State of New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of Treasury, Division of Investment and is an unrated investment.

4. RESTRICTED ASSETS

Restricted assets include cash, investments and amounts on deposit with lessors that have been restricted from use for normal operations as a result of agreements with outside parties.

Since April 1997, certain proceeds, primarily from the issuance of Grant Anticipation Notes, Certificates of Participation and New Jersey Economic Development Authority Bonds, financed portions of NJ TRANSIT's capital projects. These proceeds are restricted by applicable agreement covenants. As of June 30, 2009 and 2008, the balance of restricted investments related to these proceeds was $626.6 million and $643.0 million, respectively.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas lessors. Restricted leveraged lease deposits as of June 30, 2009 and 2008, were $1,351.5 million and $1,504.0 million, respectively, for these lease agreements that represent investment agreements made to meet NJ TRANSIT's payment obligations throughout the term of the leases. As these transactions do not meet the definition of an "in-substance defeasance," NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Fund Net Assets. In fiscal year 2008, NJ TRANSIT made provisions for the decrease in value of investments held to meet payment obligations under one of the agreements.

Other restricted amounts are made up primarily of deposit requirements for NJ TRANSIT health insurance plans, stocks held by ARH III Insurance and debt and interest requirements for MetroPark parking deck. The proceeds of other restricted amounts totaled $25.1 million and $15.3 million as of June 30, 2009 and 2008, respectively.

5. CAPITAL ASSETS

A summary of capital assets follows *(in millions)*:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets not being Depreciated				
Land	$340.7	$18.9	$18.9	$340.7
Capital projects in process	649.6	830.0	514.6	965.0
Total	**990.3**	**848.9**	**533.5**	**1,305.7**
Capital Assets being Depreciated				
Buildings and structures	4,901.1	207.7	13.3	5,095.5
Track	2,136.9	15.9	—	2,152.8
Railcars and locomotives	1,911.6	310.8	160.4	2,062.0
Buses, vans and light railcars	1,421.8	47.9	7.5	1,462.2
Furniture, fixtures and equipment	522.3	16.4	3.7	535.0
Total	**10,893.7**	**598.7**	**184.9**	**11,307.5**
Less Accumulated Depreciation				
Buildings and structures	1,807.4	194.0	—	2,001.4
Track	719.7	86.4	—	806.1
Railcars and locomotives	973.2	72.4	6.5	1,039.1
Buses, vans and light railcars	788.1	102.1	7.2	883.0
Furniture, fixtures and equipment	410.1	34.0	1.5	442.6
Total	**4,698.5**	**488.9**	**15.2**	**5,172.2**
Total Capital Assets, Net of Depreciation	**6,195.2**	**109.8**	**169.7**	**6,135.3**
Total Net Capital Assets	**$7,185.5**	**$958.7**	**$703.2**	**$7,441.0**

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets not being Depreciated				
Land	$291.5	$113.6	$64.4	$340.7
Capital projects in process	767.5	640.4	758.3	649.6
Total	**1,059.0**	**754.0**	**822.7**	**990.3**
Capital Assets being Depreciated				
Buildings and structures	4,600.0	450.2	149.1	4,901.1
Track	2,083.6	126.5	73.2	2,136.9
Railcars and locomotives	1,655.6	259.0	3.0	1,911.6
Buses, vans and light railcars	1,378.2	45.7	2.1	1,421.8
Furniture, fixtures and equipment	403.8	120.4	1.9	522.3
Total	**10,121.2**	**1,001.8**	**229.3**	**10,893.7**
Less Accumulated Depreciation				
Buildings and structures	1,596.9	210.5	—	1,807.4
Track	639.3	80.4	—	719.7
Railcars and locomotives	894.4	81.2	2.4	973.2
Buses, vans and light railcars	692.1	106.9	10.9	788.1
Furniture, fixtures and equipment	310.9	100.9	1.7	410.1
Total	**4,133.6**	**579.9**	**15.0**	**4,698.5**
Total Capital Assets, Net of Depreciation	**5,987.6**	**421.9**	**214.3**	**6,195.2**
Total Net Capital Assets	**$7,046.6**	**$1,175.9**	**$1,037.0**	**$7,185.5**

For the years ended June 30, 2009 and 2008, capital assets include capitalized interest costs of $456.0 million and $434.5 million, respectively, net of interest income of $351.8 million and $341.9 million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Note 10).

During fiscal years 2009 and 2008, NJ TRANSIT received capital contributions of $641.8 million and $978.3 million, respectively, of which $76.0 million and $58.3 million were passed through to other entities, respectively. The transferred amounts represented assets for which NJ TRANSIT has transferred ownership upon completion of the project. For fiscal year 2009, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line, 69th Street Bridge Renovation, the Meadowlands Rail Spur, and the modernization of the Newark Penn Station Hudson and Dock interlockings.

6. PENSION AND EMPLOYEE BENEFIT PLANS

Plan Descriptions. NJ TRANSIT and its subsidiaries contribute to the New Jersey Employee Retirement System (PERS) and the Police and Firemen's System (PFRS). These cost-sharing multiple-employer, defined benefit pension plans are administered by the State of New Jersey. Each plan provides retirement, disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the State Legislature. The State of New Jersey issues separate, standalone financial reports for the PERS and PFRS plans that can be obtained through the Division of Pensions, State of New Jersey.

NJ TRANSIT sponsors five defined benefit, single-employer pension plans for the employees not participating in PERS and PFRS. Of the five single-employer defined benefit pension plans, four cover bus agreement employees and one plan covers non-agreement employees. The four agreement plans are the Amalgamated Transit Union Employees Retirement Plan, the Transport Workers Union Employees Retirement Plan, the Utility Workers' Union of America Employees Retirement Plan, and the Mercer Employees Retirement Plan. The plan covering all non-agreement employees, hired prior to July 1, 2006, is the Transit Employees Retirement Plan (TERP).

Each single-employer pension plan provides retirement, disability and death benefits for plan members and beneficiaries with the exception of the TERP plan, which has no disability provision and was closed to non-agreement employees hired on or after July 1, 2006. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement plan while the agreement plans are subject to the collective bargaining process. Separate audited financial statements are issued for the five pension plans, copies of which can be obtained from NJ TRANSIT.

Funding Policy and Annual Pension Cost. For the cost-sharing PERS and PFRS plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the State legislature. Plan members are required to contribute 5.5 and 8.5 percent of their covered salary to the PERS and PFRS, respectively. NJ TRANSIT is required to contribute an amount based on a fixed percentage of applicable compensation as determined by the respective plan sponsors. NJ TRANSIT's contributions to these plans for the years ended June 30, 2009, 2008 and 2007 were $6.0 million, $4.5 million and $4.4 million, respectively, equal to the required contributions for each year.

Under the provisions of five single-employer pension plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the Retirement Plan Committee of NJ TRANSIT as a result of bargaining agreements between the unions and NJ TRANSIT, except the TERP plan. Plan members are required to contribute 2 to 4 percent of their annual covered salary. NJ TRANSIT is required to contribute at an actuarially determined rate; the current rate is 17.3 percent of annual covered payroll. NJ TRANSIT's annual pension cost was $66.9 million for fiscal year 2009.

THREE-YEAR TREND INFORMATION *(in millions)*

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Non-Agreement Employees Retirement Plan			
06/30/2009	$27.7	100%	$0
06/30/2008	26.0	100	0
06/30/2007	26.0	100	0
Amalgamated Transit Union Employees Retirement Plan			
06/30/2009	$36.2	100%	$0
06/30/2008	30.8	100	0
06/30/2007	29.4	100	0
Transport Workers Union Employees Retirement Plan			
06/30/2009	$0.9	100%	$0
06/30/2008	1.2	100	0
06/30/2007	1.2	100	0
Utility Workers' Union of America Employees Retirement Plan			
06/30/2009	$0.2	100%	$0
06/30/2008	0.3	100	0
06/30/2007	0.3	100	0
Mercer Employees Retirement Plan			
06/30/2009	$1.9	100%	$0
06/30/2008	2.5	100	0
06/30/2007	2.5	100	0

Actuarial Methods and Assumptions. In the July 1, 2008, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included (a) 8 percent investment rate of return and (b) projected salary increase ranging from 3.5 percent to 5.3 percent per year. Both (a) and (b) included an inflation component of 3.5 percent. The assumptions did not include postretirement benefit increases. Contributions to sponsored plans during fiscal year 2008 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2007. The Plan assets are held in a variety of investment instruments including common stock, fixed-income securities and corporate bonds, all of which are reported at fair value. The actuarial value of assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liabilities are being amortized as a level-dollar amount over various periods on a closed basis. The remaining amortization periods at July 1, 2008, ranged from 2 to 30 years.

Funded Status and Funding Progress. As of July 1, 2008, the most recent actuarial valuation date, the plans were 82.5 percent funded. The actuarial accrued liability for benefits was $1,309.1 million, and the actuarial value of assets was $1,080.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $228.9 million. The annual payroll of active employees covered by the plan was $388.2 million, and the ratio of the UAAL to the covered payroll was 59.0 percent.

The following is the funded status information for each plan as of July 1, 2008, the most recent actuarial valuation date *(in millions)*:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (Excess of Assets over AAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c)
Non-agreement Employees Retirement Plan	$339.4	$458.2	$118.8	74.1%	$122.5	97.0%
Amalgamated Transit Union Employees Retirement Plan	679.5	778.8	99.3	87.2	245.6	40.4
Transport Workers Union Employees Retirement Plan	35.5	36.7	1.2	96.7	10.8	11.1
Utility Workers' Union Employees Retirement Plan	5.9	6.5	0.6	90.8	1.6	37.5
Mercer Employees Retirement Plan	19.9	28.9	9.0	68.9	7.7	116.9

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan 401(k) for all eligible non-agreement employees. NJ TRANSIT provides a maximum 50 percent matching contribution on the first six percent contributed by the employees. This plan permits employees to contribute up to 50 percent of their salary not to exceed $16,500 annually on a pre-tax basis.

NJ TRANSIT also provides money purchase pension plans (401(a)) and employee savings/deferred compensation plans (457) for eligible agreement and non-agreement employees. NJ TRANSIT contributed 3 to 6 percent of annual compensation to certain employees' accounts in the 401(a) plan. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed $16,500 annually on a pre-tax basis.

Beginning in 2002, a new type of pre-tax contribution was added for participants of the 401(k) and 457 plans. The Economic Growth and Tax Relief Act of 2001 permits individuals who are age 50 (or older) by the end of the calendar year to elect to make additional "catch up" contributions to the plan. This is in addition to the pre-tax employee contribution limit. NJ TRANSIT retirement plan participants can only "catch up" in one plan. Pursuant to the act, participants in the 401(k) and 457 plans who are over 50 years of age can contribute an additional $5,500 above the $16,500 limit.

NJ TRANSIT's expense for the defined contribution plans totaled $19.1 million and $19.0 million in fiscal years 2009 and 2008, respectively.

Recorded expenses for all plans (including PERS and PFRS) amount to $92.0 million and $84.3 million for the fiscal years ended June 30, 2009 and 2008, respectively.

7. OTHER POSTEMPLOYMENT BENEFITS

NJ TRANSIT sponsors a single-employer defined benefit health care plan that provides postretirement medical, dental and life insurance benefits for eligible retirees and their spouses. NJ TRANSIT does not issue a financial report for this plan. Contribution requirements are negotiated between NJ TRANSIT and union representatives for Rail and Bus agreement employees. NJ TRANSIT establishes and may amend the contribution requirements and benefit provisions for non-agreement employees. NJ TRANSIT's required contribution is based on projected pay-as-you-go financing requirements. NJ TRANSIT's payments under the plan were $24.6 million for fiscal year 2009. Plan members receiving benefits contributed $3.6 million or approximately 14.6% of total premiums.

NJ TRANSIT's annual Other Postemployment Benefit (OPEB) cost is calculated based on the employer Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the components of the annual OPEB cost for the year, the amount contributed to the plan, and changes in NJ TRANSIT's net OPEB obligation for fiscal years 2009 and 2008 *(in millions)*:

	YEARS ENDED JUNE 30, 2009	2008
Annual required contribution	$67.9	$63.6
Interest on net OPEB obligation	5.1	3.4
Adjustment to annual required contribution	(7.2)	(4.8)
Annual OPEB cost	65.8	62.2
Contributions made	(24.6)	(24.7)
Increase in net OPEB obligation	41.2	37.5
Net OPEB Obligation, Beginning of Year	**112.4**	**74.9**
Net OPEB Obligation, End of Year	**$153.6**	**$112.4**

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009, 2008 and 2007 are as follows *(in millions)*:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$65.8	37.4%	$153.6
2008	62.2	39.7	112.4
2007	55.4	33.7	74.9

As of July 1, 2007, the Actuarial Accrued Liability (AAL) for benefits was $550.9 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $381.2 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 144.5 percent.

The projection of future benefits payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subjected to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress provided as required supplemental information following the notes to the financial statements presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan member) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation.

As of July 1, 2007, the actuarial valuation utilized the projected unit-credit method. The actuarial assumption included a 4.5 percent discount rate and an annual health care cost trend rate of 10.0 percent. The unfunded actuarial accrued liability is being amortized on a level-dollar amount over a thirty-year period on a closed basis. The remaining amortization period at July 1, 2007 was 28 years.

8. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following *(in millions)*:

	AS OF JUNE 30, 2009	2008
Advance Funds-State	$73.4	$—
Injury and damage claims (Note 14)	33.4	28.4
Retainage on construction projects	26.1	18.1
Pollution Remediation Obligations	3.1	—
Other	28.1	28.3
Total Other Current Liabilities	**$164.1**	**$74.8**

9. DEFERRED REVENUE AND OTHER NON-CURRENT LIABILITIES

Deferred revenue and other non-current liabilities totaled $76.4 million and $62.3 million as of June 30, 2009 and 2008, respectively. These amounts relate to unearned lease and permit revenues, reserves for future environmental cleanup costs and funds designated for future asset purchases.

	AS OF JUNE 30, 2009	2008
Balance, Beginning of Year	**$62.3**	**$53.0**
Additions	43.9	31.8
Reductions	(29.8)	(22.5)
Balance, End of Year	**$76.4**	**$62.3**

10. LONG-TERM DEBT AND OTHER OBLIGATIONS

In April 2009, the State of New Jersey issued $394.3 million of Series 2009A Certificates of Participation (COPs) accruing interest between 3.00 to 5.25 percent with a maturity of 2030. Under the COPs, NJ TRANSIT entered into a sublease with the State to acquire 181 multilevel railcars, 4 dual-power locomotives and spare parts.

In September 2008, NJ TRANSIT entered into an eleven year refinancing agreement to defease the New Jersey Economic Development Authority (NJEDA) 2003A & B SWAP deals by issuing $342.1 million of NJEDA Series 2008A Sublease Revenue Bonds. The refunding transaction, which was consummated in order to eliminate the exposure to interest rate swings on the SWAPS, will result in additional cash outflows of approximately $28.4 million over the life of the debt. The NJEDA Series 2008A bond will accrue interest between 4.00 to 5.25 percent interest rate with a maturity date of 2019.

In April 2008, the State of New Jersey issued $309.2 million of Series 2008A Certificates of Participation, accruing interest at 5.0 percent with maturity in 2023. Under the COPs, NJ TRANSIT entered into a sublease with the State to acquire 27 electric locomotives and 37 multilevel railcars.

In September 2005, NJ TRANSIT issued $253.5 million of Series 2005A Certificates of Participation accruing interest at 5.0 percent with a final maturity in 2021. The funds will be used to acquire twenty dual-power locomotives.

In March 2004, NJ TRANSIT issued $253.2 million of Series 2004A Certificates of Participation, accruing interest between 1.9 percent and 4.1 percent, with the final maturity date in 2016. The proceeds are being used to acquire articulated buses, diesel locomotives and Metro B replacement buses.

In October 2003, NJ TRANSIT entered into a 16-year lease/sublease agreement with NJEDA as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of $325.9 million in Series 2003A Refunding Bonds. The debt matures in 2019. The proceeds from this issuance were used to refinance a portion of the existing NJEDA Series 1999A Bonds. Bond proceeds were placed in an irrevocable trust and will satisfy debt servicing associated with the refinanced portion of the NJEDA

1999 bonds. This refinancing allowed NJ TRANSIT to take advantage of favorable interest rates in the market. In connection with these agreements, NJ TRANSIT entered into several interest-rate swap agreements. This deal was closed out in fiscal year 2009 by a NJEDA Series 2008A refinancing deal.

In October 2003, NJ TRANSIT entered into a 16-year lease/sublease agreement with NJEDA as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of $35.0 million in Series 2003B Bonds. This debt will mature in 2019. Bond proceeds were used for the additional funding for the River LINE. This refinancing allowed NJ TRANSIT to take advantage of favorable interest rates in the market. In connection with these agreements, NJ TRANSIT entered into several interest-rate swap agreements. This deal was closed out in fiscal year 2009 by a NJEDA Series 2008A refinancing deal.

In September 2003, NJ TRANSIT issued $149.8 million of Series 2003A COPs, accruing interest between 1.0 percent and 4.1 percent. The proceeds were used to refinance the Series 2003B COPs. The bond proceeds were placed in an irrevocable trust and will satisfy designated debt servicing. The debt matures in 2015. As of June 30, 2009, $147.7 million of defeased COPs remain outstanding.

In February 2003, NJ TRANSIT issued $61.5 million of Refunding COPs bearing interest between 2.0 percent and 5.5 percent with final maturity in 2016. The proceeds from the sale of these certificates were deposited into an irrevocable trust with an escrow agent to provide debt service on the 1991 COPs notes. The refunding transaction, which was consummated to take advantage of low interest rates, decreased the aggregate debt service payments and resulted in an economic benefit of approximately $2.0 million over the life of the transaction with a $10.8 million deferral of refunding costs. As of June 30, 2009, $39.6 million of defeased notes remain outstanding.

In June 2002, NJ TRANSIT issued $162.8 million of Series 2002A Refunding COPs bearing interest between 3.0 percent and 5.5 percent with a final maturity in 2015. The proceeds from the sale of these certificates provided advance refunding of $158.7 million of certain maturities of NJ TRANSIT's Series 2000A COPs. The proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide for the debt service on certain Series 2000A notes. The refunding transaction was consummated to provide a structural modification to the original agreement. As of June 30, 2009, $159.1 million of defeased COPs remain outstanding.

In June 2002, NJ TRANSIT issued $94.7 million of Series 2002B COPs bearing interest between 4.0 percent and 5.75 percent with a final maturity in 2015. The proceeds of these certifications were used to purchase 28 light railcars.

In November 2000, NJ TRANSIT issued $562.2 million of Capital Grant Anticipation Notes (GANs), consisting of $452.2 million of Series 2000B and $110.0 million of Series 2000C, bearing interest between 4.5 percent and 5.75 percent. The Series 2000B notes were to mature in 2011 but were paid off in fiscal year 2009. The proceeds of these notes were used to fund the cost of constructing the second segment of Hudson-Bergen Light Rail (MOS-2). The proceeds of the Series 2000C notes were used to fund the Newark Light Rail Extension and these notes matured in 2005. As security for these GANs, NJ TRANSIT received a federal full-funding grant agreement dedicated to the repayment of these debts.

In October 2000, NJ TRANSIT issued $693.1 million of Series 2000B COPs, bearing interest between 4.5 percent and 6.0 percent with a final maturity in 2015. The proceeds of these certificates were used to fund the purchase of 24 ALP-46 electric locomotives and 1,244 cruiser buses.

In January 2000, NJ TRANSIT issued $234.1 million of Series 2000A COPs, bearing interest between 4.4 percent and 6.125 percent with a final maturity in 2015. The proceeds of the certificates were used to purchase 200 railcars and spare parts.

In August 1999, NJ TRANSIT entered into a 20-year lease/sublease agreement with the NJEDA as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of $486.7 million in Series 1999A Bonds and $147.2 million in Series 1999B Bonds, bearing interest between 4.375 percent and 5.75 percent and with a final maturity in 2011. The Series A Bonds were issued to provide funds for the River LINE project, while the Series B Bonds were issued to provide funds for the second phase of the Hudson-Bergen Light Rail project.

In March 1999, NJ TRANSIT issued $151.5 million of COPs bearing interest between 3.625 percent and 5.0 percent with a final maturity in 2008. The proceeds of the certificates were used to purchase 500 transit buses. This deal matured in fiscal year 2009.

Objective of the Interest-Rate Swaps. In order to protect against the potential of rising interest rates, NJ TRANSIT entered into several interest-rate swap agreements with AA rated counterparties at a cost anticipated to be less than what NJ TRANSIT would have paid to issue fixed-rate debt.

Terms. The notional amounts of these swap agreements are equal to the face value of the bond issuance. Based upon the swap agreements, NJ TRANSIT pays interest at a fixed rate of 3.32 percent for Series 2003A Bonds and 3.45 percent for series 2003B Bonds to the counterparties. In return, the counterparties pay interest to NJ TRANSIT based upon 62 percent of the one-month LIBOR rate plus 20 basic points. This rate is designed to offset the market rate paid on the underlying bonds, which are periodically auctioned. As the bonds are redeemed, the notional amounts of the respective swap agreement will decrease proportionately.

Credit Risk. Credit risk is the risk that the swap counterparty will not perform pursuant to the contract's terms. Under a fixed payer swap, for example, if the counterparty defaults, the issuer would be exposed to an unhedged variable rate bond position. The creditworthiness of the counterparty is indicated by its issuer credit rating.

Basis Risk. Basis risk refers to a gap between the interest rate received from the swap contract and the interest actually owed on the issuer's bonds. The issuer's risk is that the variable interest payment received from the counterparty will be less than the variable interest payments actually owed on the issuer's variable-rate bonds. This gap could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the issuer's credit quality, or a reduction of federal income tax rates for corporations and individuals.

Termination risk. Termination risk is the risk that the swap could be terminated as a result of any of several events, which may include a ratings downgrade for the issuer or counterparty, covenant violation by either party, bankruptcy of either party, swap payment default by either party, and default events as defined in the bond indenture. Termination may require a payment to be made by the issuer or may result in a payment being made to the issuer, depending on the market at the time of termination.

The following schedule summarizes notes payable obligations as of June 30, 2009 *(in millions)*:

	Inception Date	Balance June 30, 2008	Additions	Payments/ Reduction	Balance June 30, 2009	Due Within One Year
COPs 1999	03/99	$15.5	$—	$15.5	$—	$—
NJEDA 1999 A&B	08/99	123.6	—	45.1	78.5	47.6
COPs 2000A	01/00	65.1	—	9.1	56.0	25.8
COPs 2000B	10/00	315.4	—	54.3	261.1	57.3
GANs 2000B	11/00	73.4	—	73.4	—	—
COPs 2002A	06/02	159.4	—	0.3	159.1	0.3
COPs 2002B	06/02	90.6	—	2.6	88.0	2.6
COPs 2003	02/03	43.9	—	4.3	39.6	4.4
COPs 2003A	09/03	147.9	—	0.2	147.7	0.3
NJEDA 2003A	10/03	310.7	—	310.7	—	—
NJEDA 2003B	10/03	35.0	—	35.0	—	—
COPs 2004A	03/04	202.7	—	16.5	186.2	16.9
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	309.2	—	—	309.2	15.9
NJEDA 2008A	09/08	—	342.1	4.3	337.8	4.4
COPs 2009A	04/09	—	394.3	—	394.3	—
Total		**2,145.9**	**736.4**	**571.3**	**2,311.0**	**$175.5**
Unearned Bond Premium		69.2	24.4	13.1	80.5	
Unamortized Deferral on Refunding		(45.7)	(4.8)	(26.5)	(24.0)	
Total Notes Payable		**$2,169.4**	**$756.0**	**$557.9**	**$2,367.5**	

The following schedule summarizes notes payable obligations as of June 30, 2008 *(in millions)*:

	Inception Date	Balance June 30, 2007	Additions	Payments/ Reductions	Balance June 30, 2008	Due Within One Year
COPs 1999	03/99	$37.6	$—	$22.1	$15.5	$15.5
NJEDA 1999 A&B	08/99	166.5	—	42.9	123.6	45.2
COPs 2000A	01/00	67.0	—	1.9	65.1	9.1
COPs 2000B	10/00	366.8	—	51.4	315.4	54.3
GANs 2000B	11/00	171.4	—	98.0	73.4	62.8
COPs 2002A	06/02	159.6	—	0.2	159.4	0.3
COPs 2002B	06/02	92.6	—	2.0	90.6	2.6
COPs 2003	02/03	48.0	—	4.1	43.9	4.2
COPs 2003A	09/03	148.2	—	0.3	147.9	0.3
NJEDA 2003A	10/03	314.8	—	4.1	310.7	4.3
NJEDA 2003B	10/03	35.0	—	—	35.0	—
COPs 2004A	03/04	237.6	—	34.9	202.7	16.4
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	—	309.2	—	309.2	—
Total		**2,098.6**	**309.2**	**261.9**	**2,145.9**	**$215.0**
Unearned Bond Premium		69.6	11.9	12.3	69.2	
Unamortized Deferral on Refunding		(53.0)	—	(7.3)	(45.7)	
Total Notes Payable		**$2,115.2**	**$321.1**	**$266.9**	**$2,169.4**	

Long-term notes payable maturities as of June 30, 2009 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2010	$175.5	$119.1	$294.6
2011	165.1	106.7	271.8
2012	186.8	97.9	284.7
2013	195.7	88.2	283.9
2014	205.0	78.0	283.0
2015-2019	865.5	240.8	1,106.3
2020-2024	351.0	84.9	435.9
2025-2029	135.0	30.4	165.4
2030-2034	31.4	1.6	33.0
Total	**$2,311.0**	**$847.6**	**$3,158.6**

11. LEASES AND OTHER COMMITMENTS

Leveraged Lease Transactions

NJ TRANSIT has entered into a number of leveraged lease transactions with certain domestic and foreign lessors. These transactions entail the sale/leaseback (SILO) or lease/leaseback (LILO) of various NJ TRANSIT commuter and light rail vehicles, buses, equipment and facilities to third party lessors.

In connection with the leveraged lease transactions, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the term of the respective leases. As these transactions do not meet the definition of an "in-substance defeasance," NJ TRANSIT has recorded Obligations under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Fund Net Assets (see Note 4).

Defeased Leveraged Lease Obligations

From 1991 through 1996, NJ TRANSIT entered into a number of leveraged leasing arrangements with overseas investors for the purchase of transit operating equipment. NJ TRANSIT has made investment arrangements to meet all of its payment obligations throughout the term of the leases for all of these agreements and, in some instances, has been released as the primary obligator. Accordingly, recording of these obligations is not required in the Consolidated Statements of Fund Net Assets. The only remaining leveraged lease covers 32 Arrow III cars, which was entered into in 1995 with a maturity of 15 years. This lease will be terminated at the end of December 2009. As of June 30, 2009, $48.8 million of this lease obligation remains outstanding.

In connection with this lease agreement, NJ TRANSIT has made certain indemnification provisions and must comply with certain covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2009.

Leveraged Lease Risk Exposures. Under the terms of these agreements, a significant portion of the initial amount received by NJ TRANSIT from the third party (approximately 80%) is paid to an affiliate of the third party's lender which has the obligation to make an equivalent portion of the sublease rent payments, eliminating the need for NJ TRANSIT to make these payments to the third party. This portion of the lease rent payments is equal to the debt service on the related third party loan.

NJ TRANSIT also pays an amount to and enters into an Equity Payment Undertaking Agreement with a third party whereby that party has the obligation to provide the amounts necessary to make the remainder of the basic lease rent payments and pay the purchase price due upon exercise by NJ TRANSIT at the end of the lease. The amount remaining after payment of transaction expenses is NJ TRANSIT's net benefit from these transactions.

Counterparty Risk. Counterparty risk is the risk of a party to a leveraged lease agreement failing to fulfill their contractual obligation. Each leveraged lease transaction involves a variety of parties and counterparties. Counterparty risk is a type of credit risk that closely relates to the credit quality of the parties involved in the transactions. It is reduced by having an organization with good credit act as a guarantor between the two or more parties.

In September 2008, the credit rating for AIG Financial Products Corporation (AIG) was changed from AA– to A– with additional credit watch by Standard & Poor's, where the rating remains as of June 30, 2009. Subsequent to the downgrade, AIG began receiving liquidity support from the US Government. That support is anticipated to continue until 2013. AIG is both the third party lender and payment undertaker in several of these transactions. Under the applicable transaction documents, the lessor may require NJ TRANSIT to replace AIG in these transactions.

Collateral and Surety Risk. Collateral means a security or guarantee (usually an asset) pledged for the repayment of a loan if one cannot or is unable to repay. In the event of deterioration in the credit ratings of the counterparty, the agreement may require that collateral be posted to secure the party's obligations. Further ratings deterioration below levels agreed to in the Equity Payment Undertaking Agreement could result in additional collateral being posted with a third-party custodian. In most cases, collateral must be cash, U.S. Treasuries or certain federal agency securities. Additional insurance coverage of possible early termination payments is provided by separate surety policies in most contracts, which protects the counterparties from financial loss should the guarantors fail to perform in accordance with contract terms and conditions. Furthermore, if the credit ratings of the companies that provide the surety protections fall below the rating trigger associated with the early termination surety, NJ TRANSIT may also be required to replace the surety company. If the required replacement of either a surety or counterparty is not performed, it could trigger a termination event requiring a cash settlement.

Termination Risk. A leveraged lease agreement could be terminated if one party does not fulfill the obligations set forth in the contract. When an Event of Default or a Termination Event has occurred, either NJ TRANSIT or the counterparties could be required to make a termination payment according to the contract terms. Events of Default include non-payment, false or misleading representations, or the bankruptcy of NJ TRANSIT or the counterparties. Termination Events include a downgrade of the counterparty's credit rating to below that stated in the agreement. For example, under a current Equity Payment Undertaking Agreement, with respect to ratings of the equity payment undertaker, the counterparty, which may be a bank or other financial institution, must have a Credit Rating of at least AA by Standard & Poor's and of at least Aa2 by Moody's at all times before the final maturity of a leveraged lease. A party has the right to terminate the lease agreement earlier when there is a downgrading of the counterparty's credit ratings.

Interest Rate Risk. The interest rate risk goes up when the market interest rate goes down and the returns on the investment decline. Accounts initially deposited together with the aforementioned obligation of the third party's lender, result in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase option is exercised. Should an event occur that changes the initial deposit instruments, it is possible that the amount earned on the deposit account balance may not match the option price stated in the agreement at the end of the lease period. Under the terms of the agreement, should there be less interest earned on deposits than scheduled to make related payments, NJ TRANSIT would be liable for the shortfall.

The American International Group, Inc. (AIG) is a primary guarantor in a number of leases. Due to the downgrading of AIG by the rating agencies in the fall of 2008, NJ TRANSIT is required under the lease agreement to replace AIG as the financial guarantor. Such replacement is not economically practicable and NJ TRANSIT remains in technical default for not replacing AIG.

Despite the existence of the technical defaults, AIG has made all of the required payments under all of the leases. With AIG's continuing ability to access US Government funds for the next four years, it is anticipated that AIG will continue to make all scheduled payments. Under these circumstances, NJ TRANSIT believes the risk of an AIG bankruptcy is low. However, should AIG fail, NJ TRANSIT management estimates that its termination liability before negotiation could amount to $150 million.

In fiscal year 2009, NJ TRANSIT terminated the majority of its March 1998 lease transaction at minimal cost. The balance of that lease expires in December 2009. NJ TRANSIT will continue to actively pursue all avenues to terminate its remaining lease transactions.

Capital Leases

In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light railcars for the Hudson-Bergen Light Rail and Newark Light Rail systems. These cars were financed through a sale of COPs by the State of New Jersey in May 1998. The cars were subleased by the New Jersey Department of Transportation to NJ TRANSIT pursuant to an equipment sublease purchase agreement. NJ TRANSIT will repay the financed amount of $156.2 million over 15 years through June 2014.

In 1994, NJ TRANSIT entered into a 23-year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an aboveground parking facility. A portion of the financing for this facility was provided by the NJEDA through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the NJEDA bond obligations. The remaining rental payments have a present value of approximately $10.6 million as of June 30, 2009.

In 1986, NJ TRANSIT entered into a $35.9 million lease agreement for land and building facilities to be utilized for bus maintenance and storage. The initial lease term is 25 years, and the lease agreement contains an option to extend the lease for an additional 25 years.

In total, NJ TRANSIT has recorded obligations under capital leases of $1,452.6 million and $1,621.8 million as of June 30, 2009 and 2008, respectively, of which $70.5 million and $128.5 million represent current installments under capital leases as of June 30, 2009 and 2008, respectively.

The cost of capital assets under capital leases, including leveraged leases, is summarized as follows and is included in capital assets (see Note 5) *(in millions)*:

	AS OF JUNE 30,	
	2009	**2008**
Land	$27.5	$27.5
Buildings	536.8	538.4
Railcars and Locomotives	736.4	957.7
Buses and Light Railcars	699.0	699.0
Furniture, Fixtures and Equipment	63.2	63.2
Capital Assets Under Capital Leases (at cost)	**2,062.9**	**2,285.8**
Less Accumulated Depreciation	(1,122.4)	(1,191.6)
Net Capital Assets Under Capital Leases	**$940.5**	**$1,094.2**

The following schedule summarizes the capital lease obligations as of June 30, 2009 *(in millions)*:

	Inception Date	Balance June 30, 2008	Additions	Payments/ Reductions	Balance June 30, 2009	Due Within One Year
NBC Facility	07/86	$10.0	$—	$3.0	$7.0	$3.4
Metropark Parking Facility	03/94	11.5	—	0.9	10.6	0.9
MMC, Locos. & Railcars	01/97	111.8	—	8.1	103.7	7.8
ALP-44 Locomotives	06/97	7.2	—	—	7.2	—
Comet IV Coaches	07/97	22.4	—	2.5	19.9	2.3
Bus Garages	07/97	63.2	—	5.0	58.2	4.7
Arrow Coaches & ALP-44s	03/98	131.1	—	124.1	7.0	7.0
Light Railcars	06/98	78.3	—	11.5	66.8	12.1
Bus Garages	09/98	108.5	—	1.2	107.3	3.3
HBLR	12/00	184.8	5.2	—	190.0	10.4
MCI Buses	12/01	83.9	4.0	—	87.9	5.9
MCI Buses	10/02	252.7	13.2	—	265.9	—
Qualified Technical Equipment	08/03, 9/03	93.6	—	9.0	84.6	1.6
ALP-46 Locomotives	09/03	38.6	—	10.6	28.0	1.9
Comet IV Coaches	09/03	33.6	—	7.0	26.6	—
Light Railcars	09/03, 10/03	64.7	—	2.0	62.7	2.1
Articulated Buses	07/04	32.0	—	2.2	29.8	2.2
Diesel Locomotives	12/05	109.9	—	2.9	107.0	3.1
MCI Buses	11/06	17.6	—	—	17.6	—
Multilevel Railcars	12/06	18.9	—	0.1	18.8	0.1
Multilevel Railcars	06/07	34.3	—	—	34.3	—
Multilevel Railcars	12/07	62.9	—	0.4	62.5	0.5
Multilevel Railcars	01/08	50.3	—	1.1	49.2	1.2
Total Capital Lease Obligations		**$1,621.8**	**$22.4**	**$191.6**	**$1,452.6**	**$70.5**

The following schedule summarizes the capital lease obligations as of June 30, 2008 *(in millions)*:

	Inception Date	Balance June 30, 2007	Additions	Payments/ Reductions	Balance June 30, 2008	Due Within One Year
NBC Facility	07/86	$12.8	$—	$2.8	$10.0	$3.0
Metropark Parking Facility	03/94	12.3	—	0.8	11.5	0.9
MMC, Locos. & Railcars	01/97	120.8	—	9.0	111.8	8.1
ALP-44 Locomotives	06/97	7.2	—	—	7.2	—
Comet IV Coaches	07/97	25.1	—	2.7	22.4	2.5
Bus Garages	07/97	68.6	—	5.4	63.2	5.0
Arrow Coaches & ALP-44s	03/98	183.8	—	52.7	131.1	45.2
Light Railcars	06/98	89.2	—	10.9	78.3	11.5
Bus Garages	09/98	108.8	1.5	1.8	108.5	2.0
HBLR	12/00	180.0	13.2	8.4	184.8	9.3
MCI Buses	12/01	80.1	9.2	5.4	83.9	5.7
MCI Buses	10/02	267.4	4.7	19.4	252.7	—
Qualified Technical Equipment	08/03, 9/03	102.6	—	9.0	93.6	9.0
ALP-46 Locomotives	09/03	49.2	—	10.6	38.6	10.6
Comet IV Coaches	09/03	70.7	—	37.1	33.6	7.1
Light Railcars	09/03, 10/03	66.7	—	2.0	64.7	2.0
Articulated Buses	07/04	34.0	—	2.0	32.0	2.2
Diesel Locomotives	12/05	112.7	—	2.8	109.9	2.9
MCI Buses	11/06	17.6	—	—	17.6	—
Multilevel Railcars	12/06	19.0	—	0.1	18.9	—
Multilevel Railcars	06/07	34.3	—	—	34.3	—
Multilevel Railcars	12/07	—	63.1	0.2	62.9	0.4
Multilevel Railcars	01/08	—	50.9	0.6	50.3	1.1
Other	02/05	0.1	—	0.1	—	—
Total Capital Lease Obligations		**$1,663.0**	**$142.6**	**$183.8**	**$1,621.8**	**$128.5**

Minimum capital lease maturities as of June 30, 2009 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2010	$70.5	$54.7	$125.2
2011	127.0	53.8	180.8
2012	108.5	52.7	161.2
2013	137.2	118.3	255.5
2014	130.5	64.0	194.5
2015-2019	466.8	384.2	851.0
2020-2024	231.4	114.0	345.4
2025-2029	162.1	66.6	228.7
2030-2034	18.6	14.8	33.4
Total Capital Lease Obligations	**$1,452.6**	**$923.1**	**$2,375.7**

As of June 30, 2009, NJ TRANSIT was committed for future purchases under the following capital projects and special services which will be funded from federal, state, local or other capital sources *(in millions)*:

South Amboy Station Development	$11.0
Somerville Site Improvements	15.5
Newark Draw Bridge	15.8
Portal Bridge	17.0
Meadowlands Rail Spur	21.0
Ridgewood ADA Station Accessibility	23.5
Casino Revenue Transportation Program	23.8
Rail Passenger Facilities	26.3
Rail Infrastructure	36.6
Hudson-Bergen Light Rail System	45.0
Bus Rolling Stock	57.3
The Mass Transit Tunnel – ARC Projects	147.5
Other, for commitments less than $10 million	89.9
Total Capital Projects and Special Service Commitments	**$530.2**

12. POLLUTION REMEDIATION OBLIGATIONS

Effective in fiscal year 2009, pollution remediation costs are being charged in accordance with the provisions of GASB Statement No. 49. The statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. In 2009, an operating expense and corresponding liability, measured at their current value using the expected cash flow method, have been recognized for certain pollution remediation obligations. Pollution remediation obligations, which are estimates and subject to changes in price, technology, or applicable laws and regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists
- NJ TRANSIT is in violation of a pollution prevention related permit or license
- NJ TRANSIT is named by a regulator as a responsible or potentially responsible party to participate in remediation
- NJ TRANSIT is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- NJ TRANSIT commences, or legally obligates it self to commence remediation efforts.

Prior to the adoption of GASB statement No. 49, NJ TRANSIT recognized its obligations for pollution remediation under Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies, which requires recognition of a loss when it is probable and can be reasonably estimated. Under this approach, NJ TRANSIT's obligations at June 30, 2008 were approximately $17.1 million. The adoption of GASB Statement No. 49 did not have an impact on NJ TRANSIT's obligation as of June 30, 2008.

In accordance with GASB Statement No. 49, a net pollution remediation liability provision totaling $23.2 million, measured at its current value utilizing the expected cash flow method, was recognized in fiscal year 2009. The total liability of $28.4 million was reduced by $5.2 million of expected recoveries from other responsible parties, potentially responsible parties (PRPs), and insurers. The remediation cost for the fiscal year 2009 totaled $6.1 million.

The pollution remediation liability of $23.2 million primarily consists of future remediation activities associated with asbestos removal, cleanup of contamination, and wastewater treatment at NJ TRANSIT stations, garages, and other facilities. Of this amount, $3.1 million represents the current portion of the liability, which is included in other current liabilities, and $20.1 million represents the noncurrent obligation, which is included in deferred revenue and other noncurrent liabilities.

The estimated outlays include costs of a) $4.0 million associated with pre-cleanup activities including engineering studies, site investigation, corrective measures feasibility study, and the design of a remediation plan; b) $11.7 million related to cleanup activities, such as neutralization, containment, removal and disposal of pollutants, and restoration; c) $4.6 million for the external government oversight and enforcement-related activities; and d) $2.9 million for the post-remediation monitoring.

13. OTHER OPERATING REVENUES

Other operating revenues comprise the following *(in millions)*:

	YEARS ENDED JUNE 30, 2009	2008
Lease and rental	$25.9	$24.7
Advertising	13.3	13.5
Metro-North Operations	12.5	12.3
Other	22.8	18.0
Total	**$74.5**	**$68.5**

14. INJURY AND DAMAGE CLAIMS

As of June 30, 2009, NJ TRANSIT's self-insurance retention was $10 million per occurrence with commercial excess liability insurance coverage for the amounts above $10 million up to $250 million. Settlements have not exceeded this insurance coverage for each of the past three years. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment-practice claims exceeding $500,000 up to $10 million are covered by insurance. On October 14, 2004, the ARH III Insurance Co., Inc., a wholly owned subsidiary of NJ TRANSIT, was formed. This captive insurance company provides coverage for FELA and rail third-party claims in excess of $5 million up to $10 million, consequently reducing NJ TRANSIT's self-insured retention in these two areas. As of June 30, 2009 and 2008, the ARH III Insurance Co., Inc. incurred no losses for covered claims.

NJ TRANSIT has recorded an estimated liability of $100.1 million and $81.6 million as of June 30, 2009 and 2008, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, $33.4 million and $28.4 million are included in other current liabilities as of June 30, 2009 and 2008, respectively (see Note 8).

The liability is based on NJ TRANSIT's past loss experience. NJ TRANSIT believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss expenses. Management believes that its reserves for claims incurred but not reported is determined in accordance with generally accepted actuarial principles and practices. However, estimating the ultimate liability is a complex and judgmental process inasmuch as the amounts are based on management's informed estimates and judgments using data currently available. As additional experience and data become available regarding claim payments and reporting patterns, legislative developments and economic conditions, the estimates are revised accordingly and the impact is reflected currently in NJ TRANSIT's financial statements.

A reconciliation of the total claims liability follows *(in millions)*:

	AS OF JUNE 30, 2009	2008
Balance, Beginning of Year	**$81.6**	**$80.9**
Claims expense	52.1	27.3
Payment of claims	(33.6)	(26.6)
Balance, End of Year	**$100.1**	**$81.6**

15. FEDERAL GRANTS

The Urban Mass Transportation Act of 1964, as amended by ISTEA, TEA-21, SAFETEA-LU, and the ARRA, provides for the funding of a portion of NJ TRANSIT's operating cost and capital needs based upon a defined formula grant program. Generally, such funds may be utilized for no more than 80 percent of the project costs for capital assistance or 50 percent for operating assistance. Funds are apportioned to NJ TRANSIT annually, and generally are available until expended.

NJ TRANSIT also receives discretionary capital grant awards to supplement the capital assistance obtained from the defined formula grant programs. Such discretionary awards are generally limited to projects for equipment acquisition, continued system expansion and modernization, or construction of major facilities.

16. CONTINGENCIES

NJ TRANSIT is a defendant in a number of lawsuits arising from claims for personal injury, property damage, breach of contract, civil rights and personnel matters. Management believes that the ultimate resolution of these matters will not have a material adverse impact on the financial position of NJ TRANSIT.

NJ TRANSIT's contractor for the construction of the Hudson-Bergen Light Rail system has filed a claim against NJ TRANSIT alleging project cost overruns. The contractor is seeking additional compensation of approximately $100 million. Although the ultimate effect of this matter is not presently determinable, management believes that the resolution of this claim will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

NJ TRANSIT is addressing environmental issues at several locations within the state whereby virtue of ownership or use, NJ TRANSIT has a remediation responsibility. Management has analyzed all of these matters and has provided for amounts, which it currently believes are adequate. In management's opinion, the ultimate liability, if any, will have no material effect on the results of operations or the consolidated financial position of NJ TRANSIT (see Note 12).

NJ TRANSIT receives federal and state grants and appropriations for capital projects and other reimbursable activities that are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

17. NET ASSETS

Changes in net assets for fiscal years 2008 and 2009 *(in thousands)*:

	Deficit in Unrestricted Net Assets	Restricted Net Assets	Invested in Capital Assets Net of Related Debt Federal	Invested in Capital Assets Net of Related Debt State/Local/Other	Total
Balance, June 30, 2007	**$(300,206)**	**$9,076**	**$2,408,106**	**$3,057,722**	**$5,174,698**
Loss before capital contributions	(652,255)	(7,526)	—	—	(659,781)
Capital grants	—	—	344,347	633,939	978,286
Transfers	262,007	—	—	(262,007)	—
Capital grants pass-throughs	—	—	(170)	(58,107)	(58,277)
Capital assets removed from service	—	—	—	(1,166)	(1,166)
Depreciation of capital funded assets	563,430	—	(289,765)	(273,665)	—
Balance, June 30, 2008	**(127,024)**	**1,550**	**2,462,518**	**3,096,716**	**5,433,760**
Loss before capital contributions	(619,387)	480	—	—	(618,907)
Capital grants	—	—	226,640	415,186	641,826
Transfers	34,586	—	—	(34,586)	—
Capital grants pass-throughs	—	—	(21)	(75,969)	(75,990)
Capital assets removed from service	—	—	—	(1,404)	(1,404)
Depreciation of capital funded assets	473,566	—	(248,594)	(224,972)	—
Balance, June 30, 2009	**$(238,259)**	**$2,030**	**$2,440,543**	**$3,174,971**	**$5,379,285**

REQUIRED SUPPLEMENTARY INFORMATION

GASB Statement No. 45
Schedule of Funding Progress
For Retiree Health Care Plan *(in millions)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2007	$ —	$550.9	$550.9	—	$381.2	144.5%
7/1/2005	—	499.8	499.8	—	368.3	135.7

GASB Statement No. 50
Schedule of Funding Progress
For Retirement Pension Plans *(in millions)*

Non-Agreement Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2008	$339.4	$458.2	$118.8	74.1%	$122.5	97.0%
7/1/2007	307.9	424.2	116.3	72.6	122.3	95.1
7/1/2006	274.3	374.2	99.9	73.3	125.4	79.7

Amalgamated Transit Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2008	$679.5	$778.8	$99.3	87.2%	$245.6	40.4%
7/1/2007	638.8	757.6	118.8	84.3	240.1	49.5
7/1/2006	593.2	650.9	57.7	91.1	229.1	25.2

Transport Workers Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2008	$35.5	$36.7	$1.2	96.7%	$10.8	11.1%
7/1/2007	34.1	34.4	0.3	99.1	9.7	3.1
7/1/2006	31.5	32.8	1.3	96.0	9.2	14.1

Utility Workers Union of America Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2008	$5.9	$6.5	$0.6	90.8%	$1.6	37.5%
7/1/2007	5.6	5.9	0.3	94.9	1.6	18.8
7/1/2006	5.2	5.4	0.2	96.3	1.4	14.3

Mercer Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2008	$19.9	$28.9	$9.0	68.9%	$7.7	116.9%
7/1/2007	17.9	26.4	8.5	67.8	7.5	113.3
7/1/2006	15.5	26.2	10.7	59.2	7.5	142.7

NJ TRANSIT IS AN EQUAL OPPORTUNITY EMPLOYER.

New Jersey Smart Workplaces

2009 Platinum Award Winner

NJ TRANSIT
The Way To Go.®

One Penn Plaza East, Newark, New Jersey 07105-2246

www.njtransit.com